

# Corporate standards and local decisions

## A cross-country comparison of variable compensation design in a decentralized MNC

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### Abstract

Despite an intense rate of globalization, cultural diversity has not decreased (Scholte, 2002) and managing different national cultures therefore continues to be ever-present for multinational corporations (MNCs). Previous research on performance management systems (PMSs) in MNCs has found considerable differences as well similarities when conducting cross-national research on the design of incentive systems (Van der Stede, 2003; Jansen et al., 2009). However, there is a void in qualitatively researching how decentralized MNCs adapt their incentive systems across geographical borders, a question this thesis aims at investigating. By conducting 30 interviews with representatives from Sweden, Germany and Belgium in the Swedish MNC 'ManuComp', we examine if the incentive system has been adapted to the national cultures of the subsidiaries or some other construct of culture. From the data analysis, three principle conclusions are drawn: (i) there are different 'versions' of decentralization within ManuComp due to complementing control mechanisms, (ii) applying theories on national cultures is an insufficient tool to *fully* explain our results, and (iii) a strong corporate culture enables implicit steering and explains why we observe such similar results across the three subsidiaries despite ManuComp's decentralized structure.

**Keywords:** MNCs, incentive systems, national cultures, corporate culture, standardization versus adaptation

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## 1. Introduction: globalization not necessarily decreasing cultural diversity

Theodore Levitt's landmark paper *The globalization of markets* was first published in 1983, and he argued that "the global corporation" would characterize the future of international business. The basic argument was that successful firms would move from offering custom-made products to globally standardized products. Therefore international business would converge and be characterized by common practices in terms of production, distribution and management; what works in one place would be possible to apply anywhere due to large economies of scale. In the 30 years since the publication of the paper, his argument has been both supported and critiqued (see for example Tedlow & Abdelal, 2004). However, the central idea of Levitt's paper is not only that globalization has altered *what kind* of business we observe on the international level, but also *how* such multinational corporations (MNCs) operate. Later research by e.g. Egelhoff (1991), illustrated this claim by establishing that the MNC context is interesting since these organizations are among the most complex in widespread existence.

Numerous scholars have emphasized that modern MNCs can be characterized as managing a variety of tensions (Busco et al., 2008), tailoring control mechanisms (Dooms & van Oijen, 2008), and accommodating various cultures (Brock et al., 2000) when operating as truly global enterprises. A main issue of focus has thus often been to study how the management control systems (MCSs) have been designed to cater for the corporate group as a whole, while also allowing leeway for local adaptations within the subsidiaries, i.e. how to manage the inherit issues and tensions given by this global organizational setup (Bartlett & Ghosal, 1986; Dent, 1996; Birkinshaw, 1997). One important insight is that the choice of standardization versus adaptation is a general struggle for most large organizations, however, the aspect of managing different national cultures is something ever-present for MNCs in particular. In regards to managing these diverse cultures, it should be highlighted that researchers have found that an increased connectivity across geographical borders, i.e. an intense speed of globalization, does not imply a reduced cultural diversity (Scholte, 2002; O'Hara & Biesecker, 2003). To quote Scholte (2002, p. 29):

After all, the global, the regional, the national, the provincial, the local and the household aspects of social space can intertwine in innumerable different combinations. Indeed, by injecting a further dimension into the geographical spectrum – thereby adding to its complexity – globalization could just as well increase cultural pluralism.

Put differently, globalization has not been found to automatically decrease cultural diversity. Instead, these cultural differences will most likely remain and potentially be increased by globalization. Previous studies have therefore highlighted that MNCs must consider the effect that national cultures can have on planning processes (Brock et al., 2000), transferability of management practices (Lunnan et al., 2005) and the design of incentive systems (Jansen et al., 2009) since individuals in different national cultures may be more or less likely to align with aspects of the MCS. How MNCs choose to design their MCS in terms of global standardization or local adaptation will therefore be an important strategic consideration.

Performance management systems (PMSs) are often regarded as a foundational part of MCS for communicating key objectives and goals (see for example Otley, 1999; Ferreira & Otley, 2009). While most companies develop PMSs in order to follow up on results and to guide in decision-making processes (Prahalad & Doz, 1987), MNCs must also consider how to design

the PMS towards their subsidiaries in terms of global standardization and local adaption (see for example Coates et al., 1995; Dossi & Patelli, 2008; Micheli et al., 2011). Many studies have therefore focused on researching PMS practices in a cross-national setting (Merchant et al., 1995; Van der Stede, 2003). One relevant example of such research is Jansen et al. (2009), who compared incentive systems in American and Dutch car dealerships operating on the respective national markets only and found considerable differences in both preferences and the design of the incentive systems in the two countries. One question that emerges, however, is how these results are applicable on the MNC context, i.e. if a single firm had operations in these two countries, would we observe the same results? Essentially, by examining the design of the incentive systems in firms operating only on the national markets, the authors do not capture the tension of global standardization versus local adaptation. In this thesis we are therefore motivated to qualitatively investigate whether a Swedish MNC has adjusted the design of its incentive system to the national cultures of its subsidiaries. This addresses a seeming gap in the literature on cross-national PMS practices in a *single* MNC from a qualitative approach. Additionally, our geographical choice of where the MNC is headquartered is justified since previous literature has characterized the Scandinavian culture in general and the Swedish culture in particular to value a large degree of decentralization and a high level of independence (Hofstede, 2001). In this thesis we therefore investigate the following research question:

**How do decentralized MNCs adapt their incentive systems across geographies?**

To answer this overarching question, we will decompose it in the following two sub-questions:

**Q<sub>A</sub>: Is the design of the incentive system globally standardized or locally adapted?**

**Q<sub>B</sub>: In case of adaptation, is this to national culture or some other construct of culture?**

We operationalize our research questions by conducting a qualitative in-depth cross-country case study of the Swedish decentralized MNC (henceforth ‘ManuComp’), with operations in 170 countries. The case company is a financially successful firm providing industrial productivity solutions and continues to receive high marks in rankings over attractive and most sought after employers among students (see for example Universum, 2012). We have conducted 30 semi-structured interviews with representatives from Sweden, Germany and Belgium to understand how ManuComp has designed its variable compensation (VC) system in each country.

From the data analysis, we draw three principal conclusions. First, we observe that within the decentralized case company, there are different ‘versions’ of decentralization. By this we refer to ManuComp’s centrally issued guidelines, which illustrate the structural and strategic considerations from top management in regards to the VC system, and the so-called grandfather-principle, which requires managers to coordinate their decisions with their managers. The guidelines are only in place to guide the subsidiaries, not to give detailed instructions. Instead, these guidelines are locally implemented and are designed in a way to allow for contextual adaptations since the actual content of the VCs is decided upon locally. Through the grandfather-principle, ManuComp can nevertheless maintain a certain control

over the local decisions, i.e. that they remain ‘reasonable’, which is a key value permeating all processes of the firm. Second, when applying theory on national culture we find this to be an insufficient tool as we only find partial support for our observations, i.e. it is unable to *fully* explain our results. To extend the analysis further, we finally draw on conceptualizations of corporate culture when applying the “Onion diagram” (Hofstede, 2001). We find that ManuComp can be characterized to have a strong corporate culture, which enables implicit steering and explains why we observe such similar processes across the three examined countries, despite ManuComp’s decentralized organizational structure. In short, we find that ManuComp’s VC system exhibits aspects of both global standardization and local adaptation. There is a certain degree of adjustment according to theory on national culture, but the primary and more explicit adaptation has rather been to the firm’s corporate culture. Hence, we can conclude that we do observe that the design of the incentive system in our chosen Swedish decentralized MNC is prone to certain cultural adjustments. However, we observe globally quite similar processes since these adjustments are more strongly connected to ManuComp’s corporate culture, rather than the national cultures of its subsidiaries.

## **Outline**

The remainder of this thesis proceeds as follows. In the next section (Section 2) we position our study in relation to relevant previous research on the design of incentive systems in a cross-country context. The starting point is theories on global standardization versus local adaptation from the perspective of incentive system design. The main conclusion is that the cultural aspect plays an important role in incentive systems since it relates to implicit, often silent features of its design and thus plays a role in motivating employees. Therefore, we then turn to theories that can conceptualize national cultures. More specifically, we present Hofstede’s four-dimensional theory and position it towards how to design incentive systems in MNCs. The key take-away from this theory is that different countries score differently on the four dimensions and thus yield different theoretical expectations on how to design incentive systems in geographically spread subsidiaries. Using these theoretical expectations, we next turn to empirical studies that apply Hofstede’s model on the design of incentive systems. The main conclusion from this review is that some studies have found empirical support in line with theory, whereas other studies find that other factors, such as corporate culture and other organizational characteristics play a more important role in explaining the design of incentive systems. Lastly, we discuss critique against Hofstede’s model and argue, in line with previous research, that its limitations might require us to refer to corporate culture in order to entirely explain our observed results. Overall, we outline pertinent frameworks and identify empirical as well as conceptual gaps in cross-country investigations of the incentive system design in a Swedish decentralized MNC

Section 3 discusses the design of our study and describes how we went about inquiring into the design of ManuComp’s VC system through an in-depth case study. In the pre-study phase, we set the overall framework of the study, e.g. which countries to focus on and relevant representatives to interview through four open-ended interviews. This was conducted in close cooperation with ManuComp and we also learned more about the general characteristics of the VC system. In the interview-phase, we interviewed 26 representatives from the three chosen countries Sweden, Germany and Belgium. These interviews were semi-structured around three themes: standards, measurements and rewards, which is an approach inspired by theory (see for example Anthony & Govindarajan, 2007). That section also discusses methodological considerations we had to make while designing and conducting our study.

In Section 4, we present our empirical data. First, we give a brief background to ManuComp and various aspects of the VC system and observe that the case firm is a decentralized company with a VC system characterized by central guidelines that are in place to guide, not to instruct. Then, we present our findings from the three examined countries and find differences in type of targets included in the VCs and the individual preferences. In Sweden, the VCs are characterized by mainly hard quantitative measures that are based equally on individual and general targets, whereas Germany has a focus on hard targets primarily based on the own unit and with the aide and approval of external resources. Finally, we observed that the Belgian representatives participate less in the target setting and communicated a preference for a higher fixed salary as opposed to a large VC.

The analysis is presented in Section 5 and is divided in accordance to our research questions. We begin by evaluating whether ManuComp's VC system is globally standardized or locally adapted. This initial step of the analysis is very important since our case company is a decentralized firm, which implies that the organizational structure *suggests* that we can expect to observe a certain degree of local autonomy of the subsidiaries. Therefore, the aim of this first part of the analysis is to evaluate whether ManuComp is in fact displaying indications of allowing for leeway for local adaptations of the VC system within the subsidiaries. We find mixed indications of both occurrences due to the nature of the central guidelines. Given this finding, the next question pertains to whether our observed results are in accordance to theoretical predictions on national culture. While we find partial support for certain dimensions, our main conclusion is that Hofstede's theory is an insufficient tool to *fully* explain our observed results. In line with previous studies' critique of Hofstede, we therefore refer to theory on the corporate culture construct by applying the "Onion diagram" (Hofstede, 2001) to further extend the analysis. This final part of our analysis reveal that management control practices in general and the VC system in particular are affected by underlying key corporate values, implying that ManuComp is characterized by a strong corporate culture.

In the final section (Section 6), we summarize our key findings and highlight three main conclusions: (i) there are different 'versions' of decentralization within ManuComp due to complementing control mechanisms, (ii) applying theories on national cultures is an insufficient tool to *fully* explain our results, and (iii) in line with previous research we *extend* our analysis by applying theory on corporate culture and find that a strong organizational culture enables implicit steering and explains why we observe such similar results across the three subsidiaries despite ManuComp's decentralized structure. In sum, we conclude that the design of the incentive system in our chosen Swedish decentralized MNC has been adapted to certain cultural adjustments, i.e. that it has been adjusted to a certain extent across geographies. However, we observed quite similar processes across the three researched countries since these adjustments are more strongly connected to ManuComp's corporate culture, rather than the national cultures of its subsidiaries.



## **2. Previous research: incentive system design in MNCs**

This section presents previous research pertinent to our specific research questions. This is crucial as it guides the reader in our motivation of research questions and research design, while it also yields theoretically driven expectations to our particular research questions. We start by giving a brief overview of research related to the structural aspects of operating as either a centralized or decentralized MNC and specifically review previous research on MCSs in MNCs by introducing the choice of global standardization and local adaptation. After a brief orientation in this broader topic, we outline different research views on incentive systems and motivations and guide the reader in the choices necessary and relevant for this study. The third part presents the notion of national cultures. This part is divided to first present research on national culture and how it can be conceptualized. Then, we present one common and widely used culture framework developed by Hofstede (1980) and how previous research has, on a theoretical level, related this particular framework to the design of incentive systems. Thereafter, we turn to empirical studies and divide this stream of research in studies that (i) normatively discuss and recommend the advantages in terms of efficiency of adapting the design of incentive systems to national cultures, (ii) have found empirical evidence of incentive systems being adjusted to specific national cultures, and (iii) present evidence that other factors than national cultures are more important when adjusting the design of incentive systems in different countries. Fourth and lastly, we present criticism against Hofstede's (1980) theory and introduce the concept of corporate culture since previous literature within our specific research field has turned to this culture construct when theories on national culture have proven to be insufficient to fully explain their observed results. More specifically, we present different theories and tools that can be used when evaluating if an organization is characterized to have a strong corporate culture since this can explain the design of various aspects of the control mechanisms that are in place. We summarize this chapter by discussing what questions remain unanswered and how our study can contribute to knowledge. Overall, we outline pertinent frameworks and identify empirical as well as conceptual gaps in cross-country investigations of the incentive system design in a Swedish decentralized MNC

### **2.1 MCSs in MNCs: global standardization versus local adaptation**

An area of longstanding interest within the academic research has been to examine various aspects of the MCSs within MNCs (Jarillo & Martinez, 1989). Unlike large domestic organizations, MNCs are interesting because of the diversity of problems they face by operating across geographical markets and cultures (Egelhoff, 1991). Particular attention has been given to the extent of being characterized as either centralized or decentralized as this has been described as a key coordinating mechanism (Jarillo & Martinez, 1989). In essence, this classification regards the manner in which responsibilities for specific tasks have been assigned to different organizational levels and how "order" is created within the MNC as a whole (Busco et al., 2008). The inherent tension for MNCs is therefore that they on the one hand want to leverage their competitive advantage across geographical borders, i.e. in all of their subsidiaries, which requires a certain degree of centralized coordination. On the other hand, however, they need to adapt to local conditions, which instead calls for some level of decentralization and local autonomy (Busco et al., 2008). A main issue of focus has thus often

been to study how the MCS has been designed to cater for the corporate group as a whole while also allowing leeway for local adaptations within the subsidiaries, e.g. how to *manage* the inherent issues and tensions given by this organizational setup (see for example Stopford & Wells, 1972; Baliga & Jaeger, 1984; Cray, 1984; Bartlett & Ghosal, 1986;; Dent, 1996; Birkinshaw, 1997; Busco et al., 2008; Doms & Oijen, 2008).

Performance management systems (PMS) are often regarded as a foundational part of MCSs (see for example Otley, 1999; Ferreira & Otley, 2009). A particular focus of previous research on MCSs within MNCs has been to study the design and use of the PMS as a control mechanism (see for example Coates et al., 1995; Otley, 1999; Henri, 2006; Merchant & Van der Stede, 2007; Dossi & Patelli, 2008; Micheli et al., 2011). The common theme for this stream of research concerns the choices between global standardization and local customization and visibility and controllability. That is the root cause for the complexities of the MNC and why this organizational type continues to remain of such interest for academic research. In the next subsection we therefore introduce theory on incentive systems as part of the PMS.

## **2.2 Incentive systems within PMSs: two main theories on personal motivation**

The aim of this subsection is to (i) present how previous research has framed the discussion on incentive systems, i.e. how PMSs can be viewed, and (ii) review theories on how the incentive system can be used to motivate employees.

### ***Framing incentive systems: metrics, targets and compensation***

Chiang (2005) outlined that there are three dimensions to incentive systems. First, we have the *type of reward*, which regards the nature of the reward. Second there are the *reward systems*, encompassing the methods and mechanisms employed by the company to determine reward outcomes. These can be based on either the level of job performance or more non-performance oriented, e.g. seniority (number of years in service) and developed skills/competences. Lastly, the *reward criteria* relates to the basis on which the company determine and distribute awards, i.e. if it is on group or individual level.

Anthony and Govindarajan (2007) viewed the incentive system from a somewhat similar three-step approach: metrics, targets and compensation. ‘Metrics’ regards the measures that make up the basis for performance evaluation and can be either financial (e.g. sales, margins and cash-flows) or non-financial (e.g. customer and employee satisfaction) in nature. For a company, the main question thus relates to what measures to include in performance reports. ‘Targets’ regards the basis against which the targets are evaluated, i.e. the standards. From a business perspective, this concerns the level of the measures and how these levels are decided upon, i.e. how the standards are derived. Lastly, ‘Compensation’ relates to the types and size of the incentives and what these rewards are based on, i.e. individual or group performance. A question that emerges from this review, however, is how the framing of the incentive system can be put in relation to the personal preferences and motivation of the employees.

### **2.2.1 Personal preferences and motivation: agency theory and extrinsic/intrinsic**

Previous research on incentive systems has outlined two main theories on how employees are motivated: agency theory (Anthony & Govindarajan, 2007) and intrinsic versus extrinsic motivation (Frey & Osterloh, 2002). In essence, these theories regard the alignment of organizational and personal goals and internal versus external motivation respectively. Before we present these theories in more detail, it should be noted that when studying literature on incentive systems, it appears that companies, to a large extent, mostly focus on extrinsic financial incentives in their design of incentive systems, which implies that they in practice have adopted a viewpoint inspired by agency theory (Armstrong, 2010).

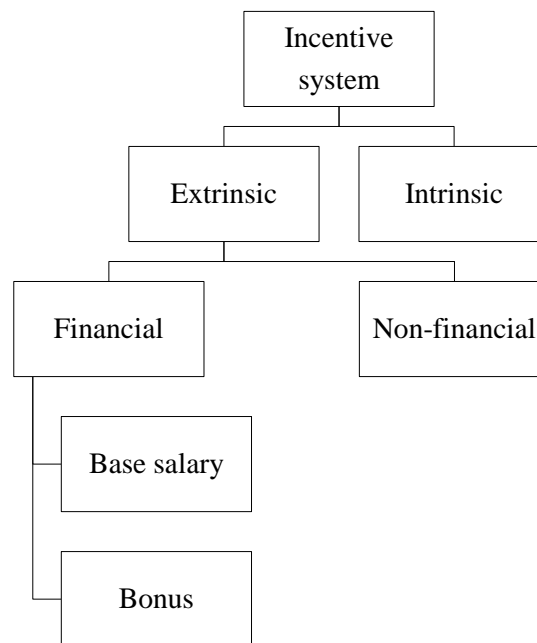
#### ***Agency theory: alignment of organizational and personal goals***

Anthony & Govindarajan (2007) established that a key consideration for organizations, in regards to motivating the employees to work towards the fulfillment of the organizational goals, lies in relating the incentive system to the personal goals of the individuals. This view is based on agency theory, which stipulates that the principal (the employer) delegates decision-making authority to the agent (the employee). Since the principal is unable to continuously observe the agent, we have a situation of asymmetric information, which the agent will exploit since he/she is a self-interested individual with a primary interest of maximizing his/her financial gain. This is the sole driver of the agent's motivation. Therefore, the reward system should be built on this knowledge and designed in such a way that the agent's self-interest is aligned with the interests of the principal (Anthony & Govindarajan, 2007). Put differently, the incentive system should be designed to be in line with the personal preferences of both the agent and the principal.

#### ***Intrinsic versus extrinsic incentives: motivation from either internal or external factors***

In this theory, the key aspect lies in understanding if the employees are motivated by extrinsic or intrinsic incentives. Figure 1 illustrates how we conceptualize and organize previous research related to these two motivation types, which is in line with how most previous studies have arranged their discussion of incentives (Frey & Osterloh, 2002). Intrinsic incentives include job satisfaction, identification with common values and the achievement of personal goals whereas extrinsic incentives relate to tangible rewards with an instrumental value that usually is monetary, e.g. pay (Frey & Osterloh, 2002). Deconstructing extrinsic incentives, they can be either financial or non-financial. Rewards focusing on various needs related to recognition, achievement, responsibility, autonomy, influence and personal growth are examples of non-financial extrinsic incentives. The two main types of financial extrinsic incentives are: (i) base payment for participation – base salary, and (ii) additional payments contingent to some sort of performance – bonuses (Silverman, 2004; Armstrong, 2010). The base salary is determined by evaluating the actual job role, i.e. the required level of skill, effort and responsibility needed to perform the job under certain conditions (Bhatia, 2010). In Figure 1, the box labeled 'Bonus' includes a broad set of incentives: not only yearly variable payments, but also one-time cash payments often related to a profit-sharing schemes (Hyman, 2000; Bhatia, 2010) and share ownership plans, e.g. stock options (Rich & Larson, 1987). In this theory, total employee motivation equals the sum of the intrinsic and extrinsic motivation. However, these two types are not mutually exclusive; by increasing one, the other might decrease, or be "crowded-out", which means that it is undermined (Frey & Osterloh, 2002). Extrinsic incentives in particular have been found to crowd out intrinsic motivation

(Frey & Osterloh, 2002). From the perspective of incentive system design, this implies that when intrinsic motivation is weak, the importance of extrinsic incentives increases. However, when the intrinsic motivation is strong, extrinsic incentives should be used carefully.



**Figure 1:** Conceptualizing previous research on incentive systems

### 2.2.2 Incentive systems in MNCs: to standardize or allow for local adjustments?

Research from the beginning of the 1990's found that MNCs in particular were starting to put more attention to the design of their incentive systems in order to make the link between pay and performance more effective (Sparrow et al., 1994). However, a main take away from that study is that although human resource management (HRM) practices are indeed converging across nations, there are still certain areas within HRM that continue to display clear divergences: culture, work structuring, performance management and resourcing. Sparrow and Wu (1998) researched the cultural aspect and its effect on preference for HRM practices in more detail and found that values pertinent to a national culture made up a separate notion affecting the job satisfaction and commitment among employees.

In a later study, and on a more general level, Sparrow (2000) discussed the importance of considering what people in different cultures think about financial incentives. He did not provide an inventory of specific considerations, but directed the following as a final take away for managers to consider: what people think about the incentive system they are subject to is important. This concern was addressed earlier by Thierry (1988) who argued that monetary incentives carry four meanings: (i) motivation, (ii) relative positioning, (iii) level of control, and (iv) utility created. Since most of these meanings can be subject to cultural interpretations, which is in line with Sparrow's (2000) discussion, Thierry (1988) claims that the design of incentive systems in MNCs is susceptible to differences in perceived meaning (from the perspective of the designer of the incentive system) and actual satisfaction (employee perspective).

Coates et al. (1995) researched the degree to which the design of incentive systems in MNCs may create short-term management behavior in German, English and American firms. While many features of the incentive systems were similar across their sample, the main differences were found in how various aspects of the incentive systems were emphasized. These differences were bound to more short-term behavior in the Anglo-Saxon firms. Their findings suggest that the cultural aspect has an effect on what parts of the incentive system to emphasize in different countries. On a more detailed level, but also pertaining to implicit factors part of any culture, White et al. (1998), listed the following mechanisms as important when MNCs are designing incentive systems:

- a) The center for decision-making: highlighting the level of centralization and employee participation
- b) Criteria employed by management when making reward decisions: managers' stance in regards to different mindsets affecting these choices
- c) Effect of certain strategies on employee behavior and performance: stressing the interplay between values, generated attitudes and actual behavior
- d) How to operationalize the previous three points across different countries

Relating back to the research of MNCs in general, we are thus starting to see that the choice between global standardization and local adaptation is also permeating the process of designing the incentive system in MNCs. The cultural aspect in particular appears to play an important role in incentive systems since it relates to implicit, often silent, features of its design. This was highlighted by Lawler (1987) who established that financial incentives are effective in motivating employees when it is perceived as important by the people, and when it is tied to a performance in which it is visible, credible, long-term and regarded as direct. From our perspective, the question is how Lawler's (1987) conclusions are affected when adding the cultural aspect to the analysis. With this in mind, we must therefore discuss possible ways to conceptualize culture.

### **2.3 Conceptualizing national cultures in MNCs: applying Hofstede's framework**

Reviewing previous research, we realize that there are several ways in which national cultures can be framed, but the perhaps most widespread mean to define systematic culture variation is presented by Hofstede (1984), who defines culture as (p. 13): "the collective programming of the mind which distinguishes the members of one human group from another". In his study of thousands of employees at IBM from 40 countries between 1967 and 1973, Hofstede identified four main dimensions on which national cultures differ: (i) power distance, (ii) uncertainty avoidance, (iii) individualism/collectivism, and (iv) masculinity/femininity.<sup>1</sup> By assigning each of the 40 countries a score ranging from 1 to 120, Hofstede then managed to derive a classification of national cultures. The data used for the empirical part of the study was obtained from an existing bank of survey results collected within subsidiaries of IBM in 40 countries, and covering for example questions about values. The survey was held twice: once during 1968 and the second one in 1972, producing a total of over 116 000 respondents.

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<sup>1</sup> In 1991, a fifth dimension called *long-term orientation* was added to Hofstede's model. This was based on research among students and a survey instrument that was developed together with Chinese employees and managers was used (Hofstede, 2001).

Each of the 40 countries could then be given a score on these four dimensions (Hofstede, 1984).

Hofstede's framework has stood the test of time and later studies have improved its utility (see for example Leung & Bond, 1989; Sondergaard, 1994). Also, the four dimensions that constitute Hofstede's study have proven to have a value in explaining and predicting behavior in many studies researching the effect of national cultures and continue to remain the most recognizable cultural model to use when analyzing national cultures (see for example Newman & Nollen, 1996; Harrison & McKinnon, 1999). It is nevertheless important to be aware of the many other possible ways to identify and measure cultural dimensions when distinguishing one country from another. Kluckhohn and Strodtbeck (1961) identified over 150 different definitions of culture in their study, and there are a number of more recent advances in the quantitative dimensionalization of culture (see for example Schwartz, 1992; Trompenaars, 1993). However, this thesis will focus on using Hofstede's model since other studies researching the relationship between national cultures and incentive systems have also used this framework (see for example Van der Stede, 2003; Jansen et al., 2009).

In the following paragraph we describe and provide examples to illustrate how the four dimensions of Hofstede's model are used to evaluate a national culture. Then, we refer to research that, on a theoretical level, discusses how these four dimensions imply that incentive systems should be designed, i.e. how theory argues that the incentive system *should* be designed when particular dimensions have either a high or low score.

The first dimension, *power distance*, refers to the extent to which members of a society are willing to accept that power in organizations is distributed unequally. Hofstede (1980) proposed that people in cultures with high power distance tend to prefer, or at least are more inclined to accept, less participation in decision-making processes and higher levels of centralization of decision-making authority (Merchant et al., 1995). *Uncertainty avoidance* is the degree to which members of a society try to avoid uncertainty and ambiguity. Hofstede (1984) suggested that countries with high scores on uncertainty avoidance tend to decrease, avoid, or deny uncertainty by relying on formal or informal rules of behavior and standardization of procedures. *Individualism versus collectivism* is the third dimension and describes whether people tend to see themselves as individuals or members of a group (Ibid.). In collective cultures, group interests drive individuals and the maintenance of interpersonal harmony is emphasized. In contrast, people in individualistic cultures tend to set their self-interests ahead of the group's interest (Merchant et al., 1995). Persons with high individualism therefore choose individual-oriented, as opposed to group-oriented, work arrangements (Hofstede, 2001). Finally, Hofstede (1984) refers to *masculinity versus femininity* where masculinity represents a preference for achievement, material success and assertiveness, while femininity is more characterized by a greater focus on maintaining relationships, high quality of life and caring for members. How these dimensions can be seen in the light of incentive systems, on a theoretical level, will be described next.

### **2.3.1 Applying Hofstede's four dimensions on the design of incentive systems**

Many studies within management control have used Hofstede's four dimensions to discuss the impact of local culture on incentive system (see for example Harrison & McKinnon,

1999; Chenhall, 2003; Kirkman et al., 2006). In the following four subsections, we discuss how each of Hofstede's dimensions is expected to affect the components of incentive system design on a theoretical level. Table 1 summarizes this review.

***Power distance: discretionary power and larger wage differences across hierarchical levels***

Power distance is often referred to as being particularly relevant for incentive determination and performance evaluation (Hofstede, 2001). In countries where power distance is high, people are more inclined to accept greater centralization of decision-making authority and there is a bigger chance that lower-level managers will accept that a greater amount of discretionary power is being exercised by their managers in incentive determination (see for example Harrison, 1993; Merchant et al., 1995; O'Connor, 1995). Power distance is also known to explain earnings inequalities between different hierarchical levels. Brossard and Maurice (1974) studied French and German manufacturing plants and found that wage differences were much bigger in France than in Germany, which is also in line with France scoring higher on power distance in Hofstede's study from 1980. Similarly, a later study conducted by Den Tex (1992) found that salary wage ratios between chief executives and workers were significantly and positively correlated with the country's score on power distance. Furthermore, in a study covering 24 countries conducted by Schuler and Rogovsky (1998) it was shown that power distance is negatively correlated to non-managerial employee stock options and ownership, implying that these incentives are not found in countries with high power distance.

***Uncertainty avoidance: clearly specified and easily quantifiable measures***

In line with the previous description of uncertainty avoidance, individuals in cultures high on uncertainty avoidance generally prefer an incentive system that is based on clearly specified, quantitative targets that provide an unambiguous relation between effort, evaluation and compensation (Harrison, 1993). This implies that employees in such cultures are likely to react unfavorably to compensation that is based on performance, i.e. a form of variable compensation, since it then causes them to take on a bigger risk than if the salary was fixed. High uncertainty avoidance cultures are also likely to avoid highly discretionary bonuses as opposed to formula-based. This is in line with what Schuler and Rogovsky (1998) found; uncertainty avoidance is positively related to compensation based on seniority and skill, and negatively related to pay that is based on performance.

***Individualism/Collectivism: performance-based versus group-oriented evaluations***

In an employment situation, Hofstede (2001) suggested that people in cultures characterized by high individualism tend to favor individual performance-based, rather than group-oriented, incentives and evaluations. Earley (1989) performed an in-basket<sup>2</sup> experiment with 48 Chinese and 48 U.S management trainees, and found that the Chinese managers, coming from a collectivistic culture, performed best when they were told they were evaluated by groups of 10 and when their names were not written on the documents they handled. Similarly, they performed worst when performance was measured individually and with their names written on the documents. For the U.S. trainees, coming from an individualistic culture, the results were the opposite; they performed considerably lower when working for a group target and

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<sup>2</sup> A simulated in-basket experiment is a common management training method where the participants receive a pile of documents and is asked to handle as many of them as efficiently as possible.

anonymously, but they were the most efficient when operating individually and with their names clearly marked. In another study it was shown that individualism is positively related to pay for individual performance and to stock options and ownership for managers (Schuler & Rogovsky, 1998).

***Masculinity/Feminism: focus on hard facts versus softer aspects***

Despite the lack of extensive empirical studies that have focused *primarily* on identifying links between the masculinity dimension and incentive systems, the expectation, according to Harrison (1993), is that people who are high in masculinity have a stronger desire for achievement and competition, which permits a stronger focus on performance, meeting targets, and relative performance evaluations. In contrast, only focusing on bottom-line performance and to neglect the well being of members in feminine cultures can be counterproductive. Likewise, in a culture where managers are low in masculinity and place less value on monetary incentives, the effect of strictly performance-based incentive compensation may inhibit the motivational effect (Merchant et al., 1995). More recently, it has, however, been found that masculinity is positively related to payment of commission to non-managerial employees, and negatively correlated to flexible benefits, workplace childcare for clerical and manual workers, and maternity leave (Schuler & Rogovsky, 1998).

<b>Dimension</b>	<b>Definition</b>	<b>Effects on incentive system design</b>
<b>Power Distance (PD)</b>	The extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally	<b>If PD high:</b> 1) Large wage differences across hierarchical levels 2) Acceptance of discretionary power in incentive determination 3) Negative correlation to non-managerial employee stock options and ownership
<b>Uncertainty Avoidance (UA)</b>	The extent to which societies focus on ways to reduce uncertainty and create stability	<b>If UA high:</b> 1) React unfavorably to compensation that is based on performance 2) Favor compensation based on seniority and skill
<b>Individualism (IND)</b>	The extent to which one's self identity is defined according to individual characteristic or by the characteristics of the groups to which we belong on a permanent basis	<b>If IND high:</b> 1) Favor individual performance-based incentives and evaluations 2) Favor stock options and ownership for managers
<b>Masculinity (MAS)</b>	The extent to which "traditional" male orientations of ambition and achievement are emphasized over "traditional" female orientations of nurturance and interpersonal harmony	<b>If MAS high:</b> 1) Stronger focus on performance, meeting targets, and relative performance evaluations 2) Favor commission to non-managerial employees

**Table 1:** Summary table of Hofstede's dimensional definitions and effects on incentive system design

***The creation of reinforcing or opposing effects on preferences of incentive system design***

Given our discussion on the theoretical implications of Hofstede's model on the design of incentive systems, it is important to understand that Hofstede's four cultural dimensions operate simultaneously. According to Chow et al. (1994) this implies that dimensions may create reinforcing or opposing effects on an individual's preferences for management control and incentive systems. For example, directors that come from a national culture that is characterized by high uncertainty avoidance may not react positively to the ambiguity associated with discretionary VC. How satisfied you are with discretionary bonuses, however,



depends partly on the amount of respect and trust for the superior, which in turn is tied to power distance. Therefore, these two dimensions – uncertainty avoidance and power distance – may interact and create mutually opposing or reinforcing effects on the preferences of incentive system design. Moreover, people in cultures with a high score on uncertainty avoidance may prefer group performance-based incentives as that facilitates risk sharing (Merchant et al., 1995). The reaction to group, as opposed to individual, performance-based incentives, however, also depends on the amount of individualism/collectivism. Having said that, we see that multiple cultural dimensions can affect a person's preferences for, as well as reaction to, incentive systems in interactive ways (Chow et al., 1994). Therefore, we should bear this in mind when developing our interview templates so that these reinforcing, or potentially opposing, effects are taken in to account. Now that we have discussed implications of Hofstede's model on a theoretical level, a question that remains unanswered is whether this has been empirically investigated.

### **2.3.2 Empirical studies on the impact of culture on incentive design: mixed results**

Having outlined the theoretical prescriptions of Hofstede's model, we now turn to empirical studies examining the relationship between national cultures and the design of incentive systems. We have divided this stream of research in three parts: (i) normative research that discusses and argues for adapting incentive systems to national cultures in terms of efficiency, (ii) research that has found empirical evidence of incentive systems being adjusted to national cultures and (iii) studies presenting evidence that factors other than national cultures are more important. A main take away of this section is that the empirical studies are reporting mixed results since some are recommending adjustment to national cultures while others highlight other factors.

#### ***The effectiveness of adapting the incentive system to national cultures: it depends***

In this section we present normative research arguing from a theoretical perspective how companies *should* do with regards to adapting their incentive system to the national cultures of their subsidiaries. Some studies stipulate that adjustments to national cultures are efficient, whereas other researchers contend that no adjustment, i.e. a more standardized approach, is to prioritize.

Gomez-Meija and Welbourne (1991) based their paper on the central proposition that MNCs will be more successful in managing a diverse workforce if they are able to *actively adapt* their incentive systems to national cultures. More specifically, they conceptualized how Hofstede's (1980) four dimensions should affect the design of the incentive systems given that a particular country scores high or low values for each dimension. They also discussed corporate features that ought to be inherent in such a setting and the interplay between national cultures, inherent corporate features and implied design of incentive systems. In short, the conclusion reinforces their initial proposition. They specifically argued that successful companies are those that (p. 39): "[...] acquire information about the environment – and more appropriately react to that data [...]". Regarding national cultures, the authors claim that understanding and incorporating cultural effects on incentive systems should be seen as an extension of reacting to environmental data. Reward systems in particular are of importance due to their essential roles in organizations. Hence, they summed up by giving the example of Japanese firms that should realize that their systems, which are focused on job

security and group performance, will be difficult to implement without change in the U.S since that culture is characterized by other values.

Doz and Prahalad (1986), on the other hand, based their argumentation on the realization that the intensification of global competition, created by freer trade and freer investment, calls for growing strategic control<sup>3</sup> for MNCs. While industry globalization requires centrally planned actions, intensified competition has demanded increased responsiveness and adaptation to local market and culture conditions. Hence, their argumentative basis concerned how external forces are requiring an adaptation to national cultures, whereas Gomez-Mejia and Welbourne (1991) based their argumentation on logical conceptualizations of what is happening in the international business environment. The aim of Doz and Prahalad's (1986) paper was to examine some of the issues facing HRM and how it can contribute to help diversified MNCs to meet the challenge of controlled variety<sup>4</sup>. The authors argued that sensitivity to local conditions and differences are needed for various reasons. One example would be that in order for senior managers to be credible to local members of their firm, they have to show sensitivity to local differences as necessary to defend convincingly local interests in relation to the HQ. If they are not sensitive enough to the local culture, there will be a lack of credibility and commitment among the local employees; something that will have a negative effect on the efficiency of the subsidiary. Yet, there are some potentially important drawbacks associated with exercising local sensitivity. For example, it makes balancing between local demands and global priorities more difficult. In other words, Doz and Prahalad (1986) highlight the importance of thinking globally and acting locally.

Schuler and Rogovsky (1998) further studied whether or not incentive systems in particular should be adapted to local circumstances. They concluded that the use of HRM practices, particularly compensation practices that are geared towards the cultural expectations of the employees of the host countries, may help corporations create competitive advantages. MNCs need to at least have an understanding of possible cultural-HRM practice relationships in order to avoid possible failures in their business operations. The authors further delivered a suggestion for MNC's that strive to operate as one firm. Such MNC's could develop broad-based general HR policies, e.g. recognition of performance contributions in remuneration schemes, and then allow their foreign offices to develop more specific HR practices, e.g. individual remuneration based on performance, rather than team remuneration based on performance. This study is similar to Doz and Prahalad's (1986) article as they both highlight the need for control and flexibility, i.e. keeping a global mindset while being locally present.

In their discussion of previous research, Gomez-Mejia and Welbourne (1991, p. 30) highlighted that literature from the 1980s was finding evidence for consistency, i.e. a more standardized approach, of the compensation strategies of MNCs. They reviewed studies concluding that incentive systems of MNCs are starting to "look alike" (Gomez-Mejia & Balkin, 1991), that British firms are adopting more of a American-style system (Mesdag, 1984), and that even Japanese firms are adopting "American-like" compensation practices (Whenmouth, 1988). In fact, from Whenmouth (1988, p. 35), we find the following quote

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<sup>3</sup> By strategic control, Doz and Prahalad (1986) referred to how the resource commitment decisions of multiple subsidiaries and HQs are brought together into a consistent pattern that increases the competitive advantage of the firm over time.

<sup>4</sup> With controlled variety, Doz and Prahalad (1986) referred to the internal variety that is needed to match the growing external variety calls for flexibility and adaptiveness.

from a Japanese HR office: “My impression is that they’ll all [nations] develop [pay policies] in the most neutral, global way possible”. Such a discussion is in contrast to our literature review, as we have not found more recent papers (i.e. from the past 20 years) that argue for a globally standardized approach to the design of incentive systems as their base proposition. Instead, as will be evident from the coming sections, recent research (see for example Van der Stede, 2003) discussed other factors that can explain why MNC may not adapt their incentive systems to national cultures. A question we ask is whether MNCs have developed from the 1980s and no longer believe that global standardization is as simple and optimal as considered back then? That would explain why we instead have found studies such as Brock et al. (2000), Busco et al. (2008) and Doms and van Oijen (2008), which speak about the importance of tailoring various control mechanisms when operating across geographical borders.

Now that we have reviewed what research *recommends*, which is a mixture of both global standardization and local adaptation, it becomes relevant to examine what empirical studies have observed in reality. First, we refer to examples that demonstrate how national cultures *do* affect the design of incentive systems, and second, we present research that shows the reverse, i.e. that other factors are more important in incentive system design.

#### ***National cultures affect the design of incentive systems: national cultures non-negligible***

Various studies have shown that national cultures *do* affect the design of incentive systems. Chen (1995) focused on the differences between U.S. and Chinese firms in his explorative study of preferences in how to allocate organizational rewards and resources in light of cultural norms, organizational goal priorities and reward types. He studied two US firms (medium-sized machine tool company and a large industrial gas company) and three companies in China (steel manufacturer, petroleum firm and a transportation company). The data was collected through a questionnaire, which was formulated as a fictitious exercise asking the respondents to state their preferences to a number of reward allocation opportunities. The statistical data analysis revealed that Chinese employees emphasize economic organizational goals, whereas the Americans put their emphasis on humanistic goals. The Chinese were moreover supportive of a differential allocation of both material and “socioemotional”<sup>5</sup> rewards while the US respondents preferred rules based on equality for socioemotional rewards. This result appears to be in line with cultural theory prescriptions, which claim that US business culture is more about participation and self-actualization, hence their preference for rules based on equality. For China, the rejection of equality would be in line with the Confucian value of social hierarchy as well as attributed in the difference in power distance between the US and China. While this study adds interesting aspects to how particular preferences are similar across ten different industries (five within each country), it leaves unanswered how different/similar the *preferences* are within the same industry but across the two countries. Moreover, the authors do not explicitly discuss if and how the observed behavior translates into differences in real behavior. Had the study been complemented with in-depth interviews, underlying beliefs and values of the respondents could have indicated the nature of such behaviors.

A later study conducted by Jansen et al. (2009) combined quantitative and qualitative data in their international replication of an American study by Gibbs et al. (2004), which researched

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<sup>5</sup> These rewards enhance the psychological well being of participants.

the structure of incentive contracts among automobile retailing dealerships across the United States, by comparing Dutch firms with US equivalents. The underlying aim was to test the conflicting predictions from theory as it sometimes promotes local adaptation (“situational best fit”), and sometimes calls for global standardization (“global best practice”) in regards to international management control practices. They used a combination of data sources including a survey sent out to car dealerships, financial data (profit, sales and cost structure), and non-financial data (unit sales, employment), which had been gathered by a Dutch consulting firm, to perform univariate and multivariate data analyses. In addition, follow-up interviews were conducted with a few selected respondents. The study focused on four components of total compensation: (i) base salary, (ii) formula bonuses (based on quantitative performance measures), (iii) discretionary bonuses (based on the evaluator’s subjective judgment) and (iv) spiffs (e.g. use of promotional vehicles). The results of the study strongly indicated that the national setting matter, implying that the design of incentive systems is not affected by other situational factors. Compared to their American counterparts, the Dutch firms were much less likely to provide their managers with other incentives than the base salary. When bonuses are used in the Netherlands, it is most common to base it on sold units, whereas the formula bonus is based on a number of weighted measures in the US. In sum, the authors conclude that incentives should *not* be considered part of a set of “global best practices” for international management since the effect on both net profit and pay satisfaction could be negative. The strength with Jansen et al. (2009) is the combination of data they use as it adds variation and extends their analyses and conclusions about how the design of the incentive systems in the retail automobile sector is so closely connected to theory on national culture. However, in light of the question posed in this thesis, we wonder if their results would be altered if they had investigated an MNC, i.e. can we separate out effects pertinent to the individual US and Dutch firms that they investigated? This is something the authors do not discuss or consider in their study. Let us therefore continue by reviewing empirical studies that have researched a broader set of company specific variables in relation to the effect of national cultures.

***National cultures do not affect design of incentive systems: other factors more important***

We have also found studies that argue that national culture does *not* have an impact. Instead, it has been shown how others factors are more important. Merchant et al. (1995) were among the first to research and compare Western incentive systems with those found in the Chinese business culture. They conducted interviews with managers from two US and two Taiwanese firms. They deliberately chose not to investigate MNCs in order to rid possible effects from a corporate culture. From the analysis, they found that all firms had similarly constructed incentive systems, which provided cash bonuses and considered other performance measures when evaluating their managers. In all four companies, the most important performance standards were those negotiated during the annual planning process. In short, they did not find any significant cultural effects. From their results, it appears that the following seven variables are more important in explaining differences and commonalities between the two countries: education and experience of senior managers, economic development of the company, how managers believed the stock market would develop in their respective countries, the type of business of the firm, the level of mobility of the country’s work force, the growth path of the firm and the use of external consultants. From the perspective of this thesis, we are missing the overall MNC setting in general and the single MNC context in

particular in Merchant et al. (1995). Since these four firms lack any form of interrelatedness, we do not learn much about the transferability of management practices across geographical borders. However, this study is nevertheless interesting as we see how four seemingly unrelated firms in two different countries and cultural contexts appear to design their incentive systems similarly. Compared to Chen (1995) and Jansen et al. (2009), however, this study does not decompose the incentive systems in detail but keep it at a higher level, e.g. they report that there are profit sharing plans, not the exact percentage of total compensation. Moreover, most of their propositions relating to the cultural dimensions are not supported due to their small sample size. Hence, we cannot conclude that culture is a completely insignificant force.

Lindholm, (2000) addressed our concern regarding the single firm context when he described and reported the findings of a survey of 1,849 employees in China, Thailand, India, the UK, Germany and the US working in an MNC with operations in 45 countries. His main question regarded the relationship between job satisfaction and the design of the performance management system (PMS). This data was then used for a multiple regression analysis, which yielded results in contrast to expectations. On a general level, the PMS appeared to have broadly similar effect on job satisfaction on local employees in the different subsidiaries. Unlike Jansen et al. (2009), Lindholm stressed that the main adaptation to national cultures is found in the practice of evaluating and giving feedback on performance. He found this insight intriguing as he was expecting larger differences due to the cultural diversity of the different subsidiaries, and since this is what cultural theory, e.g. Hofstede (1980), prescribes. Instead, Lindholm highlighted two other reasons. First, it may be that local employees in the subsidiary regard the PMS as a cultural artifact of the MNC itself, which therefore facilitates its transferability across geographical borders. In short, the corporate culture works as tool to harmonize behaviors, beliefs and values. Second, expatriates may function as bearer of the corporate culture and work as diffusers of a standardized PMS. While Lindholm's (2000) results were contradictory to theoretical expectations as he highlighted the importance of firm-specific effect, we do not learn more about the employees' deeper feelings concerning the PMS and the true driver of their job satisfaction. These questions were left unanswered. While Lindholm's (2000) quantitative data analysis was extensive and impressive, the question is if it captures the true underlying feelings, beliefs and values of the employees in the selected subsidiaries. This was something that added extra credibility and opened up for extensions of Jansen et al.'s (2009) quantitative results.

The overall aim of Van der Stede (2003) was to examine whether MNCs adjust their MCSs to the local conditions of the subsidiary in general and the national culture in particular. He tested this empirically by collecting data through a questionnaire from 153 business units in 37 firms and analyzing the importance of effects pertinent to national cultures contra corporate parent effects on the design of incentive systems. The statistical analysis revealed that corporate-level effects are the predominant driver of variations in the design of the incentive system, not national cultures. Hence, his results indicated that MNCs aim for global standardization instead of local adaptation when it comes to the design of incentive systems. For example, bonuses were primarily based on formulas set by HQ instead of being discretionary. In sum, the effect of national cultures was weak and it appeared that management practices were converging with those of the parent company, something the author referred to as "intra-corporate isomorphism" (institutional forces towards uniformity).

A main strength with this study is the combination of examining effects both within firms and across firms, the former of which has been an unusual approach within the management control literature. However, when concluding that the internal corporate culture is stronger than the national culture, we lack a discussion of why they have observed this, i.e. would the results differ if the examined firms would have a weak corporate culture? Hence, a clearer analysis of how the authors evaluate the corporate culture of the case firms had been of benefit. Moreover, compared to Jansen et al. (2009), we are missing the in-depth interviews. Is it really possible to examine the true underlying cultural aspects by only conducting a multivariate analysis? We are skeptical, and believe that it would have added potentially important insights if this extensive quantitative study had been complemented with qualitative data obtained through interviewing a select number of managers in the different subsidiaries.

Thus far, we have only reviewed research that has applied Hofstede's theory in some way. A question that remains, however, is to evaluate Hofstede's theory, i.e. to present research that is critical to the Hofstede model. This will follow next.

## **2.4 The organizational culture construct: treated as a backstop<sup>6</sup> within this field**

Although Hofstede's model, as presented above, continues to remain the most commonly used model in national cultural analyses, it has nevertheless been criticized by a number of scholars (see for example Dorfman & Howell, 1988; McSweeney, 2002; Baskerville, 2003). A main point has been that his model is not capturing the notion of national cultures since it is a very abstract concept per se. Moreover, since his first model is based on four dimensions, only those particular aspects are covered, resulting in certain aspects of any national culture not being properly captured. In other words, these critics claim that Hofstede's way of operationalizing cultures is meager since this theory disregards the various domains of culture that an individual belongs to (Newman & Nollen, 1996).

As mentioned, previous research has shown that the relationship between national culture and incentive systems has not always been *fully* supported (see for example Granlund & Lukka, 1998; Van der Stede, 2003). Published research has reported many surprises where support for the impact of national culture was either weak or absent (Chow et al., 1994; Lau and Tan, 1998), or where empirical data was opposite to the expected outcome according to theory (see for example Merchant et al., 1995; Chow et al., 1996). Van der Stede (2003) is a relevant example of how this issue has been addressed by turning to corporate culture and examining the degree to which it explains observed results. In that study, he spoke of this culture construct by referring to a few previous studies that found that the organizational culture of foreign subsidiaries converge with that of the parent company (Lincoln et al., 1978; Firth, 1996; Chow et al., 1999). In short, the notion of corporate culture is treated as a backstop, something to turn to when theories on national cultures are insufficient. By adopting this approach, he was able to conclude that (p. 279): "corporate-level effects predominantly drive variations in MCISs<sup>7</sup>, which suggests that MCISs tend to be uniformly implemented within firms, rather than to reflect local business-unit conditions". Bhimani (2003) on the other hand

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<sup>6</sup> A backstop can be compared to providing last-resort support. This expression is commonly used in baseball to describe the person who plays the position of catcher.

<sup>7</sup> "MCIS" refers to management control and incentive systems.

found that an organization can be characterized to represent several professional cultures, prevalent within different subgroups in the organization. More specifically, he presented data suggesting that certain aspects of the management accounting systems (MAS) design will be appreciated by different subgroups depending on their perception of how these aspects are in line with their perceptions, i.e. their specific professional culture, which can be seen as part of an overarching corporate culture. What we should take away from these previous studies is that research on the effect of different cultural aspects of MCSs are dependent on the applied methodology. When researching national, professional and corporate cultures respectively, different questions must be asked in order to fully understand observed results when applying different theories. Hence, for our study we need to take with us that: (i) the notion of corporate culture is out there but that there is a thin operationalization of this construct within our specific research field, and (ii) we can be aware of this by asking questions related to the values of the firm and different structures in place that carry these values. Next, we will hence provide a brief overview of research on the organizational culture construct pertinent to our research question.

Hofstede (2001) defined this construct as (p. 391): “Organizational cultures are entirely distinct from national cultures; the two concepts are complementary”. Considering Hofstede’s quote, we realize the importance of understanding the differences between national cultures on the one hand and corporate cultures on the other. This section thus deals with cultural differences between organizations – and parts of organizations – within the same country or countries. Hofstede (2001) explained that organizational cultures distinguish organizations, while keeping the national environment constant. In line with the definition of national culture, Hofstede defined organizational cultures as (p. 391): “the collective programming of the mind that distinguishes the members of one organization from another”.

According to Hofstede (2001), the first use of the word *culture* in the management literature was by Jaques (1951). The book was called *The changing culture of a factory* and described the long-term involvement that Jaques had with the British Glacier Metal Company. He described the situation in the factory in the following way (p. 251):

The culture of the factory is its customary and traditional way of thinking and of doing things, which is shared to a greater or lesser degree by all its members, and which new members have to learn, and at least partially accept. Culture is part of a second nature to those who have been with the firm for some time.

According to Hofstede (2001) there are especially two books that are referred to as playing an important role for the popularization of the term organizational (or corporate) culture: *Corporate Culture* by Deal and Kennedy (1982) and also its later volume, *In Search of Excellence* by Peters and Waterman (1982). The main proposition of Peters and Waterman is that successful companies have a strong corporate culture, which is represented by shared values (pp. 75-76):

Without exception, the dominance and coherence of culture proved to be an essential quality of the excellent companies. Moreover, the stronger the culture and the more it was directed toward the marketplace, the less need was there for policy manuals, organization charts, or detailed procedures and rules. In these companies, people way down the line know what they are supposed to do in most situations because the handful of guiding values is crystal clear.

Of those who have studied organizational cultures, some researchers treat culture as something that an organization *has*, whereas others choose to treat it as something a firm *is* (Smircich, 1983). The former indicates an analytical approach and a concern with change, and it predominates among management teachers and consultants. In other words, by using the strength of the corporate culture, a firm can motivate its employees and thereby increase productivity. The latter supports a more synthetic way of looking at organizations and a concern with understanding and is most common among academics. Put differently, this approach sees corporate culture as a means of affecting behavior of the employees in a certain direction. For our thesis, this implies that if we apply the notion of corporate culture, we must determine how ManuComp potentially uses its corporate culture: to motivate or steer behavior of its employees.

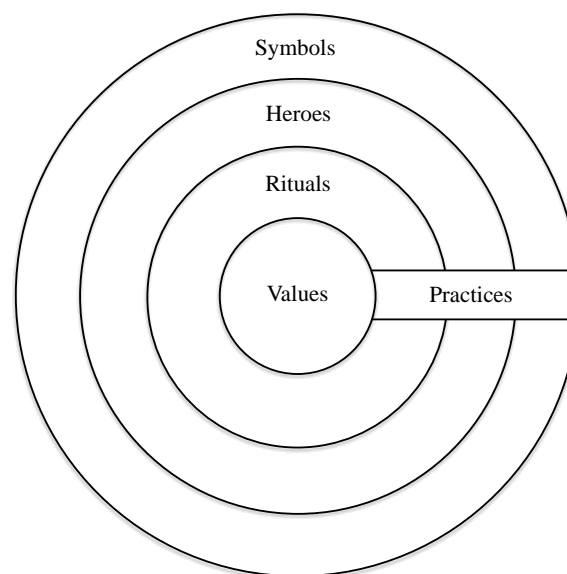
When studying organizational culture, it has also been questioned whether to use a qualitative versus quantitative approach. According to Saffold (1988), for both the *has* and the *is* paradigms, a majority of the literature has used a qualitative approach that neglects appropriate validation procedures and lacks objectivity as well as generalizability. According to Saffold, this calls for a need of a combination of a qualitative methodology for depth and empathy and a quantitative approach for confirmation. This combined research was carried out under the label IRIC, the Institute for Research on Intercultural Cooperation, which we will cover in the next section.

#### **2.4.1 National versus corporate cultures: state of mind versus affecting members**

While Hofstede's IBM study explained the differences between various *national* cultures, he separately designed the IRIC study aimed at understanding *organizational* cultures. That study compared 20 different organizational units in Denmark and in the Netherlands during 1985 and 1986. Compared to the IBM cross-national study, the IRIC study was thus across organizations; instead of studying one company in many nations, it covered a number of different organizations in two countries. The distinction between the two types of cultures became clear in the different roles played in the IBM versus the IRIC project by the manifestation of culture depicted in Figure 2. The figure illustrates a set of terms that is used to describe a manifestation of a culture only recognizable by the people who share this culture: symbols (e.g. words, gestures, pictures and objects), heroes (individuals with highly prized characteristics), rituals (socially essential activities) and values (preference for certain state of affairs). It builds on the proposition that "symbols", "heroes" and "rituals" are all included under the term *practices*, which means that they are visible for an outside observer. However, their cultural meanings are invisible and lie precisely and only in the ways the insiders interpret these practices. Values are thus invisible until they become evident in behavior.



When applying the “Onion diagram” (Figure 2) to compare the outcome of the IBM and the IRIC study, some interesting differences appeared. Among national cultures, comparing otherwise similar people, the IBM study found substantial differences in *values*, in the sense of broad, nonspecific feelings of good and evil, and so on. These were notwithstanding similarities in practices among IBM employees in similar jobs but in different national subsidiaries. When researchers today write about national cultures becoming more and more similar, they usually collect evidence from the level of practices: people buy the same products, dress the same way and use the same fashionable words (symbols); they watch the same movies and television shows (heroes); they enjoy the same leisure and sports activities (rituals). These manifestations of culture, which are relatively superficial, are often mistaken for all there is, i.e. the deeper, underlying level of values, which moreover express the meaning for people of their practices, are disregarded. Therefore, studies at the values level continue to show considerable differences between nations (Hofstede, 2005).



**Figure 2:** The “Onion diagram”: Manifestations of culture at different levels of depth (Hofstede, 2001, p.11)

As already mentioned, the interesting aspect with the IRIC study is that it found the roles of values versus practices at the organizational level to be exactly the reverse of their roles on the national level. This implies that comparing people with the same nationality in different organizations showed important differences in practices but smaller differences in values (Hofstede, 2005). Harzing and Sorge (2003) argued that effective shared practices are a prerequisite for MNCs to function. Hence, hiring people from different nationalities, they cannot assume common values. MNCs therefore coordinate and control their operations through worldwide practices that are inspired by their national origin (or HQ) but can be learned and accepted by employees from a variety of different nationalities. Hofstede (2001) further argues that the values of founders and key leaders of a firm undoubtedly shape organizational cultures, but the way in which these values affect ordinary members is through shared practices, i.e. the values of the founders and of key leaders translate in to practices of the organizational members. If the values of a member depend foremost on criteria other than membership in the organization, the way these values enter the organization must be through the hiring process, i.e. a company searches for and hires potential employees of e.g. a certain

nationality, age, education and gender. Their later socialization in the firm becomes a matter of learning the practices (symbols, heroes and rituals) and standing up for the values of the firm. Hence, HR departments that select the individuals to be hired therefore play an essential role (for better or for worse) in maintaining and reinforcing the values of an organization. In essence, by noticing an organization's practices and employees' behaviors it is possible to explain observed behaviors.

## **2.5 Concepts moving forward: how this thesis contributes to knowledge**

In this literature review, we introduced the MNC context and the ever-present issue of global standardization versus local adaptation of MCSs across geographical borders. The focus was on the PMSs and how previous studies have found evidence of adaptations to either national cultures or other constructs of culture, e.g. corporate cultures. Our review has identified a number of gaps in the current state of our knowledge. Beginning from the international context, most cross-country research has used the Anglo Saxon culture as the base, which motivates us to approach this research from a decentralized Swedish perspective. Secondly, there is no clear study that adopts the MNC context from a qualitative approach. Where such qualitative elements have been added (see for example Jansen et al., 2009), the researchers have not applied the single MNC context in the design of their studies. Concerning the PMSs in MNCs, previous research has focused on prescribing best practices and merely mentioning that the cultural aspect is important when considering the employees. Therefore, we are motivated to dig deeper in the preferences of the employees and understand if they perceive any particular features as problematic.

The mixed results of previous empirical studies do not yield any clear and consistent evidence against the application of Hofstede's theory. Hence, we were motivated to apply this model in our specific study of a decentralized Swedish MNC, wondering whether we would observe similarly mixed results in ManuComp. However, as we, in line with previous research, also acknowledged the limitations of Hofstede's four-dimensional model to fully explain all results, we also brought forward the concept of corporate culture and how organizational values can be exhibited in the practices of the employees, illustrated in the "Onion model" (Hofstede, 2001). These are concepts that we will further elaborate on in our forthcoming analysis. In short, the main contribution of this thesis lies in a better understanding of how MNCs potentially adjust the design of their incentive systems since we chose to approach the research question somewhat differently.

## **3. Methodology: case study with many data sources and ongoing reviews**

In this section, we present and motivate the methodology applied in our thesis. This is important in order to provide the reader with means to judge the reliability and validity of our study. First, the various elements of the research approach are covered. We present the in-depth case study, and its inherent pros and cons, which can be summarized in exploration at the expense of generalization. Second, we present and motivate our selection of case, the MNC called ManuComp. We study its subsidiaries in Sweden, Germany and Belgium and focus on the variable compensation of its incentive system. Then we continue with detailing

the research process, i.e. how we have undertaken the data collection and data analysis stages. These can be summarized into semi-structured interviews (complemented with certain additional data sources) that have been immediately notated, discussed and coded in order to find patterns. We round off by revising the data collection process and discussing the overall quality of our research in terms of reliability and validity. In short, this discussion highlights that we are aiming for transparency by using various data sources and continuously reviewing the interview template.

### **3.1. Research approach: in-depth case study aiming for exploration**

We have chosen to operationalize the purpose of this thesis by adopting the single in-depth qualitative case study as our empirical method. This method is suitable when aspiring to understand complex social phenomenon as it allows us to maintain a holistic view of important characteristics observed in real-life events (Yin, 2009). This was highlighted by Dubois and Gadde (2002), who claimed that (p. 553): “The interaction between a phenomenon and its context is best understood through in-depth case studies”. Essentially, this method offers the opportunity to understand: “[...] a contemporary phenomenon in depth within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 2009, p. 13). Relating back to the purpose of this study, we aim at understanding whether the design of incentive systems within MNCs is subject to cultural adjustment, which implies an inherent tension between the choice of standardizing or allowing for local adaptation, i.e. the boundaries between HQ and local subsidiaries can be blurred, especially in a decentralized context. Thus, the single in-depth case study approach appears to be an appropriate choice.

Otley and Berry (1994) argued for the single in-depth case study as it allows for assessing and evaluating the structure and operation of management control systems by placing them in a wider context. Since we aimed at understanding the underlying motivations of how a PMS is designed within an MNC context, this provides further argument for using the single in-depth case study approach. Moreover, since the purpose of this thesis is to understand *how* an MNC has chosen to design its incentive system and explain *why* we observe the results, the qualitative single case method is appropriate since previous literature has found this approach to be most appropriate when ‘how’ and ‘why’ questions are being asked (Yin, 2009).

Case studies are primarily used within management control research in order to explore, i.e. when not only describing but aiming for explanation (Otley & Berry, 1994). Essentially, applying the case study method can facilitate in generating and modifying theory, which is particularly valuable when current theories are unable to fully explain observed phenomenon. As we are attempting to build further on research such as Van der Stede (2003) and Jansen et al. (2009) by focusing on the single MNC context, an exploratory approach can assist in further building on existing theories related to the cultural aspects in incentive system design.

According to Yin (2009), the in-depth case study is the most suitable choice for this thesis as it provides the opportunity to handle several interesting variables and incorporating multiple forms of evidence. Moreover, we argue that the single in-depth case study provides the best opportunities for understanding underlying motivations for designing an incentive system in a

particular way by being based on deep-interviews. In light of previous research within this area, which has often conducted quantitative analyses, we are deliberately focusing on the qualitative aspects in order to understand underlying motivations and preferences. While Jansen et al. (2009) complement their quantitative analyses with selected interviews, they have not focused on the single MNC context, which we find interesting. As mentioned by Lindholm (2000), using data from one company facilitates in controlling for organizational factors, such as differences in management control systems that might affect the observed results when data is collected from different organizations. That is why we find Newman and Nollen (1996) interesting since they found evidence that the financial performance of 176 subsidiaries within a single MNC was higher when the management practices were congruent with the national culture. However, they did not examine incentive systems in isolation, but studied a broad set of management practices including the rewards system, employee participation and clarity about policies and direction. The single MNC context is also in line with Dubois and Gadde (2002), who argued that it is better to dig deeper in one case instead of increasing the number of cases when the research question implies analysis of a set of interdependent variables in a complex structure (as in this thesis). In sum, we chose to aim for depth, and not width, by applying the single case approach and collecting qualitative evidence as it provides a deeper understanding of the researched issue and its related complexities compared to a more quantitative approach (Andersen, 1998).

We modeled our study in some relation to Merchant et al. (1995), Van der Stede (2003) and Jansen et al. (2009). The study by Merchant et al. (1995) is relevant as it was among the early papers to research the relationship between national cultures and incentive systems from a qualitative perspective by conducting semi-structured interviews. Moreover, they focused on the specific incentive plans of the examined companies and provided a clear approach on how to gather and present these findings. Van der Stede (2003) has been relevant for how he applied Hofstede's (1980) four-dimensional theory and, more importantly, how he addressed the weaknesses of that theory in terms of referring to theory on corporate culture when Hofstede's four dimensions was insufficient to explain his observed results. Compared to other studies, Van der Stede (2003) has a neat and well-argued approach on how this can be conducted. Finally, Jansen et al. (2009) have inspired us on how to conduct a cross-country comparison by highlighting relevant aspects to consider when structuring the interviews. Moreover, their addition of qualitative data gave us insights in how to collect, code and use such empirical data in the analytical process.

### **3.1.1 Systematic combining: controlling for unexpected but related issues**

In selecting our case, we have drawn on systematic combining presented by Dubois and Gadde (2002). The base for their argument is that the case study research process is nonlinear since it requires the handling of interrelatedness between different elements. The concept of systematic combining relates to the possibility that empirical findings might yield unexpected but related issues that can be investigated in more detail through for example forthcoming interviews or other additional parts in the data collection. In essence, this might create a need to redirect or reframe the theoretical framework. That is why Dubois and Gadde (2002) claimed that case study research is abductive, which means that it is an iterative process of constantly revisiting theory and empirical findings. The strength of using systematic

combining, according to Dubois and Gadde (2002), thus lies in being able to fully utilize the potential of case study research as it offers the possibility of developing theory by applying in-depth insights of empirical findings and their unique contexts. More specifically for our thesis, this has resulted in an iterative research process where we use theories and empirical findings in parallel to explain the issues we observe in our case as well as to develop existing theories. For example, if we come across an issue not covered in our review of previous literature, we have continued the search for other studies that have encountered similar problems or discussed these aspects in some way.

### **3.2. Selecting the case: MNC context enables theory development**

The case organization of this thesis is an industrial manufacturing MNC. There are many justifications in the existing literature for why MNCs are relevant to study. Egelhoff (1991) claimed that the MNC context is interesting since these organizations are among the most complex organization in widespread existence. Roth and Kostova (2003) further argued that researching from an MNC perspective opens up for theory development as it improves the quality of the research findings. More importantly, they contended that these results may be more generalizable to other organizational types, compared to findings from a domestic context due to the complexities of the MNC. In short, this argument sees the MNC as representing the general case whereas the domestic organization is seen as the special case. Our case company, ManuComp, is an MNC headquartered in Sweden and a global player with subsidiaries in more than 170 countries around the world. This extensive global presence creates a suitable MNC setting to study the relationship between national cultures and the design of incentive systems within an MNC.

#### **3.2.1 Selection of countries: Sweden, Germany and Belgium**

When selecting the countries to focus on in this thesis, we were, to a large extent, dependent on the availability of the people within ManuComp. Furthermore, our main point of contact within ManuComp emphasized that the thesis would benefit if we (i) interviewed in person as much as possible, and (ii) interviewed people in subsidiaries whom he knew were comfortable in discussing their incentive system in English. Hence, the country selection had also to minimize geographical distance as well as potential language barriers.

We chose Hofstede's four-dimensional model when conceptualizing national cultures. It should be noted that we did not use Hofstede's (2001) updated model, which adds the fifth dimension "Long-term orientation". This is due to a lack of recent previous empirical studies within our research field (e.g. Merchant et al., 1995; Van der Stede, 2003; Jansen et al., 2009) that have used this updated model.

From a theoretical perspective, Hofstede's (1980) results showed that two different countries never have the exact same scores on all four dimensions. Hence, from a mere theoretical viewpoint, we could potentially have picked any three countries for the study since theory prescribes that we should observe different results. If we turn to previous empirical research, there has often been a tendency of comparing countries that are substantially different on all four dimensions and also geographically far away from each other (see for example Merchant

et al., 1995; Jansen et al., 2009). Interestingly, there appears to be no in-depth research on countries that are similar on some dimensions, but quite different on other dimensions.

Taking the above organizational and theoretical aspects into consideration, we agreed, together with ManuComp, to focus on the following three European countries: Sweden, Germany and Belgium. These countries are easily accessible from Sweden (which lowers cost), these subsidiaries have previous experience of being interviewed by students for master theses and we could contribute to theory since these countries score similarly on certain dimension but are quite different on other dimensions (Table 2). We have interviewed in person by visiting the sites in Sweden and Germany. The interviews from Belgium and certain interviews in Sweden have been conducted over telephone (see Appendix 2).

Country	PD	UA	IND	MAS
Sweden	31	29	71	5
Germany	35	65	67	66
Belgium	65	94	75	54

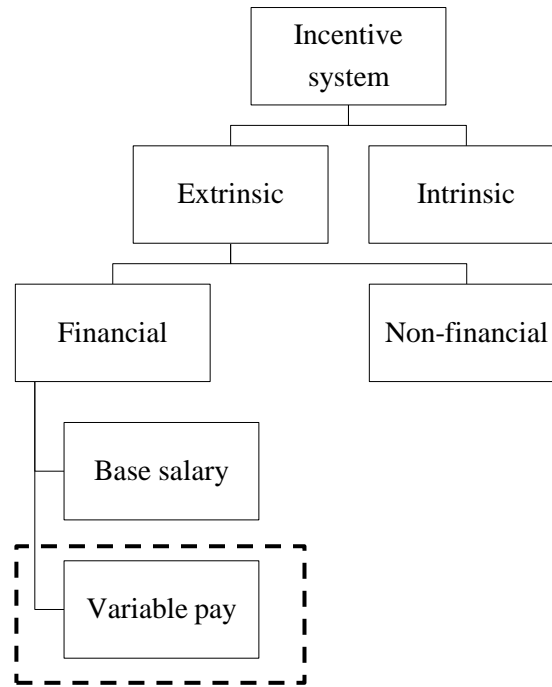
**Table 2:** Index scores and ranks for Sweden, Germany and Belgium from the IBM set (Hofstede, 2001)

### 3.2.2 The incentive system: focusing on the variable monetary compensation

The focus of this thesis is to examine the effect of national cultures on the design of incentive systems. Figure 3 illustrates how we delimit the term incentive systems in this thesis; the focus lies on incentives measured in monetary terms. We deliberately chose this approach as it is in line with previous studies on incentive systems and national cultures, e.g. Van der Stede (2003) and Jansen et al. (2009), but also because it provides a clear delimitation in regards to the type of incentive systems we are investigating. More importantly, however, including intrinsic incentives would pose significant methodological challenges due to their various natures resulting in difficulties in observing and measuring such incentives (Camerer, 2010). Within the monetary incentives, our focus is on variable compensation. The reason for this lies in ManuComp being hesitant in sharing information on base salaries with us. More importantly, including an analysis of the base salary could have proved difficult since: “I doubt the interviewees will feel comfortable in sharing exactly how much they earn. They are probably much more willing to share their thoughts on the structure of our VC system” (VP, Sweden)

### 3.3 Collecting the data: semi-structured interviews are the main data source

The main data source of this thesis is interviews and in total we have conducted 26 semi-structured and four open-ended interviews. The selection of the interviewees was first based on a selection made by our main contact at ManuComp and his thoughts on the representatives that would be the most relevant for our study. This group included a mixture of people from operational as well as supportive functions, e.g. HR, finance and research and development (R&D). By some of these interviewees, we were put in contact to some additional representatives whom were perceived to be relevant for our research.



**Figure 3:** How we research incentive systems in ManuComp

According to Yin (2009), to base an in-depth case study on interviews is an appropriate choice since interviews are the most important source of information in such research. The data collection process was initiated by a pre-study where we conducted four open-ended interviews with senior and middle management in order to learn more about ManuComp and how the incentive system is structured. In the case study phase of the data gathering, we have interviewed eleven general managers (GMs), eight HR managers, four managers from the shared services (SS) functions, and three business line (middle) managers of ManuComp. These interviews cover representatives from the three different types of companies within ManuComp<sup>8</sup> and different hierarchical positions, which is important in order to obtain the different perspectives needed to explore the purpose of this thesis.

The interviews in the case study phase have been semi-structured, where we formulated the questions partly based on the information we gathered in the pre-study. The “Metrics-Targets-Compensation” model from Anthony and Govindarajan (2007) inspired our logic of structuring the interview questions. However, since we adopted the MNC context, the model was tweaked to better suit the research questions posed in this thesis. First, we combine “Metrics” and “Targets” under the label ‘Measurements’, which means that it plots the type of targets that are in place to measure the VC. Second, we add the perspective of ‘Corporate standards’ to capture any overall, ManuComp-specific rules, guidelines, recommendations and process descriptions regarding the VC system. Compared to the original model by Anthony and Govindarajan (2007) we are thus asking the question why there are specific metrics, targets and compensations in place, i.e. if they are regulated in any way. Lastly, we

<sup>8</sup>Manu Comp is an organization that manufactures and sells industrial solutions. Hence, the organization has been structured around three types of companies: production units, which manufactures products; customer units that sell to clients; and support services to the core operations of manufacturing and selling. Within the three selected countries, we interviewed all three types of companies. Specifically within the shared support services we spoke to representatives from HR, the global finance function and research and development (R&D).

call “Compensation” ‘Rewards’, but treat it similarly in terms of plotting the basis of the rewards, i.e. group or individual performance. As highlighted by Anthony and Govindarajan (2007), asking questions related to these three areas provides a systematic approach to the interview since all relevant aspects relating to the incentive system can be covered.

Each interview lasted approximately 45 minutes and was conducted in a comfortable and conversational manner. The interview templates were primarily used as checklists rather than strict manuals. During the course of every interview, we repeatedly asked questions such as “How do you feel about that”, “Could you elaborate” and “How do you mean” in order to encourage the interviewees to fully explain underlying feelings and motivations and to make sure that we adequately grasped what they meant. The benefit of conducting interviews in person was to observe reactions to questions and statements and how they translated in facial expressions and body language. As such, we could interpret unsaid aspects of the interviewees’ answers. In addition, visiting different countries and speaking to local employees in the subsidiaries provided us with a better understanding of the complexities inherent in the MNC context as we could see how they behave to various aspects of the MCS depending on the cultural context in which they are present. All interviews were recorded on a dictaphone while we simultaneously took notes. It should be noted that all interviewees were asked to give their consent before we started to record the interview. After each interview, we discussed our notes, listened to selected parts to confirm any outstanding questions and in some cases we contacted the interviewee again when we had different interpretations in order to avoid misunderstandings and misinterpretations.

### **3.3.1 Additional data sources: direct observations, physical artifacts and documents**

Literature on case research design argues that quality is improved when several data sources are used (Yin, 2009). Thus, we have complemented the interviews with direct observations, physical artifacts and gathering different types of documents.

At the various visited sites of ManuComp, we had the opportunity to directly observe and distinguish physical artifacts. At the sites we visited, we were given guided tours of the premises during which we took individual notes. These were later discussed and compared to increase the relevance and reliability of our observations. A main take away from the guided tours is the importance put on the end products by all representatives from ManuComp and how they described that this is something permeating the entire organization. We found support for these claims in for example how end products have been strategically placed in the business landscape and in a museum located by the main entrance of the group HQ, displaying how ManuComp’s end products have developed over time. Physical artifacts are moreover found in the form of large posters on various walls at all offices communicating the shared vision, mission and culture of Manu Comp.

In regards to documents, we have been given access to internal material such as variable compensation plans, organizational charts, and internal presentation material. In addition to this, we have also consulted publically available information in annual reports, press releases and informational pamphlets.



### **3.4 Data analysis: reflections notated immediately and compared to theory**

Miles and Huberman (1994) outlined a set of six established practices to apply when analyzing qualitative data: (i) code notes from interviews and observations, (ii) continuously write down reflections, (iii) search for patterns and discrepancies in the data, (iv) isolate patterns, commonalities and differences to facilitate further collection of data, (v) elaborate on generalizations (extensive or small) found in the data, and (vi) contrast these generalizations with established knowledge, i.e. theories. These practices were applied throughout our analytical work. The empirical data was reviewed continuously to guide us in our theoretical development and facilitate further data collection. More specifically, we immediately discussed the results from each interview to understand how the interview questions could be developed and which aspects we perhaps could focus more on.

When the interview program was completed, we initiated a stricter and more formalized coding of the empirical data. This process was conducted in Excel by sorting all data, i.e. quotes, notes and quantitative data, country by country. The coding was based on the interviewees' answers relating to corporate standards, measurements and rewards, which made up the three main categories. A fourth category was labeled 'Other' and included data relating to personal preferences and other general comments that did not fit in any of the other categories. In short, we referred back to theory (Anthony & Govindarajan, 2007) in order to give the coding a more logical structure. Once the coding was completed, we discussed and wrote down our main findings for each code in order to find results either in line or in contradiction to theory and other patterns. Since our thesis draws on extensive previous research on both national cultures and incentives, we applied a structured approach as prescribed by theory when processing our empirical data and drawing conclusions.

### **3.5 Research quality: multiple data sources and reviews enhance transparency**

We chose the in-depth case study approach as it, according to Otley and Berry (1994) allowed us to maintain a holistic view when understanding *how* ManuComp has designed its VC system in Sweden, Germany and Belgium and *why*. However, this design choice has had consequences on the results. As outlined by Yin (2009), the main discussed weakness of using the case study approach is the small ground for drawing scientific generalization since the results are collected from the single case. However, that argument is based on notions from the natural sciences, e.g. validity, generalizability and reliability. In essence, these concepts regard whether the research outcome is representative of the generally studied phenomenon and if other researchers studying the same phenomenon would reach the same conclusions. To apply these concepts on the social sciences, however, has often been criticized and the general argument is that qualitative research systematically fails to conform to these ideal concepts (Maxwell, 1996). Fundamentally, the issue with qualitative social science studies has been linked to *what* is being studied (open systems) and *how* this research is conducted (inductively). For our thesis, this essentially means that any judgment of the quality of this thesis is dependent on the degree to which we are considered to have acted appropriately. There are nevertheless a number of practices, prescribed by previous research, that are regarded as 'good' research and we will next present some of these and how we have attempted to comply with them.

Yin (2009) defined construct validity as means of identifying appropriate measures to apply when studying a phenomenon. He outlined three ways of improving the construct validity of research. His first recommendation relates to the use of multiple data sources as this enables data triangulation, meaning that it opens up for extensions of the analysis through cross-examination and validation of the data. As mentioned, the analysis of this thesis rests on data gathered from interviews with people from different parts of ManuComp representing various hierarchical levels, direct observations, physical artifacts and internal and external documents. Essentially, we are attempting to map out the observed behavior from different perspectives by searching for patterns in multiple data sources.

Secondly, Yin (2009) pinpointed the importance of establishing a chain of evidence, which essentially means that the reader can clearly follow how the conclusions of the study have been derived, from the formulation of the research question, to the data collection and subsequent analysis. In this thesis, we ensured this in our final report by clearly referencing to the various sources we have used. Additionally, we built a database with our empirical data clearly stating the date and place of the data gathering. This set of data has moreover been structured through coding in order to guide the user when searching for particular types of evidence.

Finally, Yin (2009) proposed that key informants continuously should review drafts of the case study report in order to discuss underlying logic, basis of analysis and overall structure of the research. Throughout our research process we conducted several such reviews in several steps. The steps relating to selection of subject area and method, the formulation of the research questions and the review of previous literature were mainly conducted in close cooperation with our academic tutor. In regards to the development of the interview template, the empirical findings and the final conclusions were discussed with the tutor as well as key representatives from ManuComp. All these measures were put in place in order to minimize the risk of misinterpretation, i.e. that we correctly understood the interviewee's interpretation of the situation and thus maximized the reliability of our analysis.

This external validation concerns whether the findings from a single case study can be generalized beyond the researched case (Merriam, 1994; Yin, 2009). Eisenhardt (1989) agreed that external validity is challenging in single case studies since there is a risk of trying to generalize findings that are applicable only to the case study at hand. Yin (2009), however, maintained that in-depth case studies are not concerned with finding significant statistical generalizations, but rather about finding analytical generalizations. In essence, the researcher strives to generalize a particular set of results by using broader underlying theory. For us, the theoretical framework surrounding our research questions guided us in the analysis of our empirical data and thus increased our external validity. Pertinent to this, Dubois and Gadde (2002) highlighted the concept of logical coherence, which is related to the process of providing the reader with sufficient information to be able to independently assess the adequacy and quality of the research process, the results and their grounding in theory. We addressed the issue of logical coherence by grounding the design of our research in previous research and systematically analyzing the data with the use of theory. In combination with the nature of our data representing various perspectives on incentives, we strived towards logical coherence and thus had a foundation for the analytical generalization to improve the external validity of our study. Finally, we should relate back to Roth and Kostova (2002) who claimed that MNC's are such complex organizations that theory developed from an MNC context can

represent the general case whereas the domestic case represent the special case. This line of argument coincides with Yin's (2009) discussion about finding a "representative" or "typical" case to fulfill the purpose of the research as this contributes in improving the external validity.

In this section, we discussed how the reader could assess the reliability of our study since this ensures that any potential researchers wishing to replicate our case study should obtain the same results and thus reach the same conclusions. According to Yin (2009) a prerequisite for this are well-documented procedures. Therefore, we aimed at being systematic in our documentation. The interviews were semi-structured and the interview questions continuously updated, however, we were particularly thorough in our documentation of each interview, including crosschecking of notes with each other, transcribing audio recordings and asking for validation from interviewees in order to allow future research to replicate our study. Despite this, Merriam (1994) highlighted that a main problem concerning the concept of reliability in the social sciences lies in human behavior not being static, but constantly changing. Since our main data source are interviews, exact replication can prove to be challenging, perhaps even impossible, due to the fact that the answers from the interviewees may change over time as a result of changed preferences, the approach adopted by the new interviewer or other factors beyond the control of the researcher.

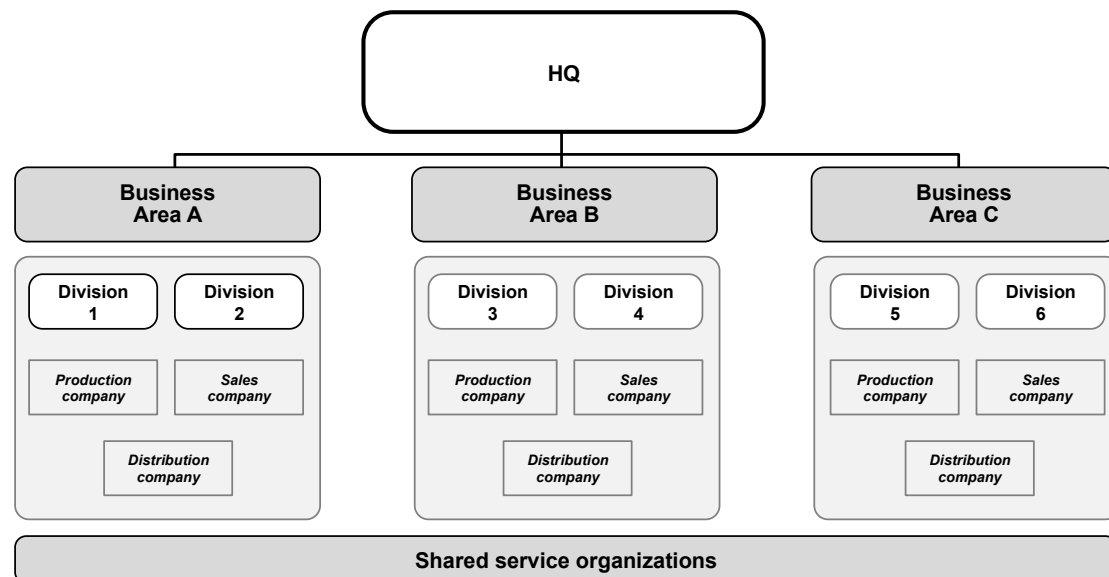
#### **4. Empirics: variable compensation in Sweden, Germany and Belgium**

In this section we describe the empirical findings of our case study and it is divided in three sections. We begin by providing a brief background description of ManuComp's history, and its key values, which are cooperation, engagement and renewal. Then, we report how the incentive system of ManuComp is constructed and focus on the general structure as outlined by central documentation within the group. Here, the key focus lies on the central guidelines issued by the "International Benefits and Remuneration" team that mention the grandfather-principle, the yearly cycle and a certain maximum variable compensation (VC) for General Managers (GMs). Finally, we report our results from the interviews from the three chosen countries by focusing on corporate standards, measurements and rewards. In order to not reveal the interviewees' true identity, we intentionally chose to write the comments in such a way that they are not directly traceable to Table 3, 4 and 5. The main results for each of the three countries are as follows: Sweden – mainly hard quantitative measures based equally on individual and general targets; Germany – hard targets based on the own unit with the aide and approval of external resources; and Belgium – less participation in setting targets and a preference for fixed salary.

##### **4.1 ManuComp: Swedish based MNC providing industrial productivity solutions**

ManuComp is a Swedish MNC providing industrial productivity solutions with operations in more than 170 countries. The case company is financially successful and continues to be ranked as one of the most attractive and sought after employers (Universum, 2012) in Sweden. ManuComp is headquartered in Stockholm, Sweden and from the overall organizational chart the structure comes across as rather straightforward (Figure 4). There are a number of business areas in which there are divisions. Each division in turn comprises

production companies, distribution centers and sales companies referred to as customer centers. Across all business areas, there are a number of shared service organizations such as Finance and R&D. Compared to Figure 4, reality is rather more complex since certain production companies as well as customer centers serve a number of divisions across business areas, which also adds a layer of complexity to the reporting structure.



**Figure 4:** Illustration of ManuComp’s organizational structure. There are a number of business areas in which there are a number of divisions. Each division consists of production companies, sales companies and distribution companies. It should be noted that each production and sales company could serve a number of divisions across business areas.

#### 4.1.1. Key values: decentralization, self-regulation and the grandfather-principle

The key values of ManuComp are cooperation, engagement and renewal. In several interviews with people from various hierarchical positions, across business areas and geographical boundaries, it was explicitly mentioned that these key values could be better explained with the following three: decentralization, self-regulation and the so-called grandfather-principle. The grandparent-principle within ManuComp entails that managers wanting to make any decisions that directly affect their subordinates must first establish this decision with their own superior. “Even if one division want to do something differently, it can create problems if it deviates too much from the norm” (VP, Sweden). In short, employees within ManuComp can rest assured that all personnel decisions affecting their work have gone through at least two management levels. “We have this system, partly as it works as an automatic control mechanism, partly to prevent any form of favoritism, because that is something we *do not* tolerate at all.” The following quote (VP, Sweden) summarizes these ‘true’ key values:

An essential part of our culture is that subsidiaries enjoy freedom but also have responsibilities. From HQ we give recommendations, not directives because we are a decentralized organization. It comes down to being self-regulating, which I believe works because all decisions I take about my employees I need to anchor with my own boss first.

In general, when being asked about the organizational structure of ManuComp, a majority of the interviewees strongly emphasized that ManuComp is a truly decentralized organization. “It’s definitely not hierarchical, we work with a high level of independence and an equally high level of personal responsibility” (GM, Belgium). “The firm is not hierarchical at all, it is fully decentralized” (HR Manager, Sweden). Other comments included: “It’s a very flat organization, and it’s easy to communicate information to higher levels” (President, Germany) as well as “In my opinion, it’s quite a flat organization as we avoid having too many layers” (GM, Belgium). In particular, employees with previous work experience from competitors, but also those who have a background from other industries, often highlighted that ManuComp, compared to previous employers, is a much more decentralized and structurally informal organization: “It’s a flat organization and everybody is approachable, you do not have to go through a particular path which was the case for me before” (HR Manager, Sweden). “It’s a very decentralized organization as compared to other firms that I have worked for” (HR Manager, Belgium). “Of course, there are hierarchical levels, but it’s still a very flat organization as compared to other firms” (HR Manager, Sweden). An HR representative from Belgium also said: “As an organization, it’s more flat. Compared to others we don’t have too many levels. It is the same within the divisions – they are also very flat. There is an open communication between management levels as well as within divisions and everybody can say his or her opinion”. In Germany, one representative also explained that his company became less hierarchical after ManuComp had acquired the division: “Before we became ManuComp, it was much more hierarchical, but now we are also flat (GM, Germany). One of the Swedish interviewees summarized this with: “We do not work with central standardization” (VP, Sweden).

In the cases where interviewees expressed a more negative feeling towards the hierarchy at ManuComp, follow-up questions from our side revealed that they recently started to feel an increased top-down steering, but that this new level of controlling still is much less than the industry average. “Compared to when I started 20 years ago, it’s now getting a bit more structured due to improved systems, but it’s still much less than the average, let’s say American or French firm” (GM, Germany). “The structure is becoming more and more formalized since we are more professional today and because the increased number of employees requires more formalization” (GM, Germany). Additionally, it has been mentioned that this could also be due to the nature of their boss, i.e. that he or she is an actively involved leader, which can be perceived as an increased level of top-down management. “From my position, I feel that it’s getting more top-down because more detailed control systems have been introduced by my superior” (GM, Sweden). Finally, there were those who described the organizational structure as more hierarchical: “From where I come from, I experience ManuComp as an extremely hierarchical firm as it is very much top-down. Recently, more and more control and reporting systems are being implemented, which enhances the feeling of the firm being hierarchical” (GM, Sweden). An additional comment was: “As an organization, it’s hierarchical and has a clear management structure” (GM, Germany).

Interviewees also spoke about corporate culture and how it affects the way things are done. It was for example mentioned that the VC structure of ManuComp is “connected to the company culture” and that “We are not famous for paying high salaries, that’s not why you work here” (GM, Belgium). Other comments such as “there’s a tradition” (VP, Sweden),

“that’s how we do things” (GM, Belgium) and “It must be fair” (VP, Sweden) further emphasizes the corporate culture of ManuComp. Some procedures also seem to be accepted just because that’s the way it is: “You’re never supposed to get the full 100 percent of your VC, it’s just the way the system is constructed” (GM, Germany).

#### **4.2 Structure of the VC: central guidelines in place to guide, not to instruct**

One of the interviewees explained that ManuComp has not always had a VC system: “We didn’t have the VC system before, but then we introduced it to remain competitive” (VP, Sweden). It was further explained that when speaking of ‘pay’ in ManuComp, it is very important to note that the word “bonus” is strictly forbidden: “It’s not called bonus because it’s not a gratification, this is an integral part of your total pay. One part is fixed and one part is variable dependent on a number of factors. That’s how we think about it here in ManuComp” (VP, Sweden).

As part of the HQ, there is an “International remuneration and benefits” team that is responsible for devising and revising the central guidelines concerning the VC system within ManuComp. These guidelines are made available for the employees on the internal web portal. “The VC guidelines make up one chapter of an electronic database that describes all of our internal processes and guidelines” (HR Manager Remuneration, Belgium). There are three key areas of the VC guidelines: (i) the grandparent-principle, (ii) the yearly cycle and (iii) a certain maximum VC that can be given to certain roles.

“Before I tell you more about these three aspects, you should know that in our company we see the divisions as the highest operating units. They should be able to adapt and align according to the needs of the operations. That’s why we only publish basic principles and very general guidelines about the VC” (HR Manager Remuneration, Belgium).

The VC system within ManuComp rests on a straightforward top-down approach, meaning that every manager is responsible for giving out the VC targets for all of his/her subordinates, who in turn hand out the targets to their subordinates. This process is initiated by top management, i.e. the CEO and the business area presidents, and then trickles down through all the divisions and shared service organizations. “Because of this process, the grandfather-principle plays a particularly central role in the implementation of our VC system” (HR Manager Remuneration, Belgium). All employees who are included in the VC system receive a set of targets that are evaluated on a yearly basis, i.e. the measurement period runs from January 1 to December 31, which also coincides with the financial year. “The process of setting and then communicating the yearly VC targets usually start once the work with the annual report has been finalized. In reality, I therefore receive my targets sometime in April or May, sometimes they do not come until June” (GM, Sweden).

Within the VC guidelines there are two distinct rules that apply for the entire group. First, employees in the sales organization who receive a sales commission are not entitled to be part of the VC system. Second, the maximum available VC that can be given to GMs is set to a

specific percentage<sup>9</sup> of their yearly fixed salary. In general, only employees who have personnel responsibility are entitled to a VC, however this is a bit ad-hoc and dependent on particular business areas, divisions, managers and roles. For lower levels in the management team, there are no centrally communicated guidelines on what the maximum VC should be: “That depends on local market benchmarks, regulations, cultures etc. so that is up to local management. The grandfather-principle makes sure to keep it reasonable” (HR Manager Remuneration, Belgium).

#### **4.2.1 Knowledge about guidelines: varied across organizational roles**

Around half of the interviewees gave a positive answer when asked if they knew about any central guidelines concerning the VC system. However, when we asked follow up questions about the content, development over time, responsible key individuals and where to find these guidelines, only a small fraction of the interviewees were able to share any additional knowledge. It should be noted that interviewees who claimed to lack knowledge about the guidelines often added “I guess we have some sort of standards somewhere but I have never used them, if they ever existed” (GM, Sweden). Knowledge about the VC guidelines was more common across the senior managers we interviewed compared to the middle and lower management levels. The exceptions were the representatives from HR, where more or less all interviewees had some sort of knowledge about the centrally communicated guidelines. Knowledge about central guidelines will be explained more in detail when we report the empirics country by country.

#### **4.2.2 The VC targets are usually distributed in May or June**

All interviewees highlighted that the VC targets are given to them midway through the fiscal year, sometimes even in July or August, and they consistently mentioned that they hope to see an improvement in the future. “The VC targets are prepared and distributed very late. One time I received them in November” (HR Manager, Sweden). Interviewees also emphasized the timing of targets as an issue and there was a wish for receiving the targets earlier: “Usually I receive my targets in March, April or June. I would really like to get them earlier, ideally in January” (HR Sweden, Sweden). However, this does not come as a surprise: “I receive the targets in the middle of the year – that is bad, but not really surprising” (Financial manager, Germany). Another employee described the way of preparing the yearly targets as “a horrible process within ManuComp”. One interviewee also emphasized the importance of receiving them earlier in the year. “It would be much better to receive the targets earlier so we can act thereafter. The targets are important for alignment within the group” (GM, Germany). One interviewee (GM, Belgium) further explained that the VC is late “because of priorities” and that “the discussion process is quite long”. An HR representative from Sweden further explained that: “First, we have to wait for the official results to be published, which happens in March, and that is when the VC process begins”.

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<sup>9</sup> Due to the sensitive nature of this information, we have been asked by ManuComp not to disclose the exact figure of this maximum. Hence, this thesis never reveals any exact VC numbers.

### 4.3 VCs across the three countries: differences in type of targets and preferences

In the following section, we report our results from the three countries. As mentioned earlier, we have organized the result on the VCs from each country within three categories: standards, measurements and rewards, an approach inspired by Anthony and Govindarajan (2007). During every interview we aimed at understanding: (i) what corporate standards the representative is subject to and if they are aware of these standards, (ii) what targets that are in place in order to measure the variable compensation, and finally (iii) the basis for the rewards. In addition to this, we also asked questions related to the interviewees personal opinions about VCs and their preferences when it comes to different targets in order to compare these preferences with the actual design of the incentive system.

#### 4.3.1 Sweden: hard measures based equally on individual and general targets

Please refer to Table 3 for a summary of our results from the interviews in Sweden. In the following paragraphs we will describe the qualitative data in more detail.

##### *Corporate standards: irregular detail knowledge and a will to both participate and involve*

The interviewees in Sweden portrayed a consistent knowledge concerning VC guidelines. However, the detailed knowledge was irregular and interviewees often started to answer the question by describing processes in place in their own particular division or business area. “We have certain limits for how large the VC can be for different management levels” (GM) and “There are quite specific guidelines” (President). Another comment from an HR representative was: “Yes, there are guidelines and it’s pretty clear what should be included”. Often, follow up questions were needed for interviewees to take a step outside their operating unit and think about the group as a whole. Then, they would relate the guidelines of their own unit and discuss how they think these have been drafted from a higher and more general base as per the recommendations from HQ. One interviewee had a slightly different approach: “I have never checked exactly what the guidelines say, I believe more in learning by doing. That’s how it works here, it’s experience based” (GM). Other comments were “I don’t know if there are any globally excepted guidelines” (GM) and “I *think* there are standards within the business areas, but I don’t know of any coordination between the four business areas” (GM).

During the initial phases of the case study, it was revealed that some interviewees, when discussing the VC standards, put high values on whether they felt involved in how their individual VC was set by their managers. Here, we identified some differences among the interviewees depending on their hierarchical level. Since a majority of our interview sample consists of senior and upper middle management, they are in the possession of both receiving and distributing VCs. In the cases where the interviewee had a superior who initiated a discussion and considered personal preferences, they claimed to aim for a similar approach with their own employees: “I think it is important to be involved in my own VC, so I use the same system for my employees” (GM). However, when the interviewee was scarcely involved in the own VC setting, there was a divergence. Some applied the same method and thus did not invite their subordinates to initiate a dialogue concerning their VC, whereas others were more proactive and had discussions about e.g. which measures to put in the VC for the members of their management team. Finally, one interviewee explained that she has



follow-up meetings with her manager throughout the year: “We changed my targets at the half year turn so that I focused on the right things” (HR Manager).

***Measurements: mainly hard, but also measuring soft targets quantitatively***

The measurement aspects related to the targets that are put in the VCs. Interviewees divided these measures in either hard or soft. Hard measures are related to purely financial measures such as revenues and profits, whereas soft measures are of a more subjective character and linked to intangible aspects, e.g. competence development, work culture and work flow.

Among the Swedish interviewees, the intervals for how large amount of the VC that consisted of hard measures was 30 to 80 percent, while the corresponding interval for the soft measures was 20 to 70 percent. The most common hard measures include targets for revenues, costs and profits. Other financial targets mentioned in the interviews were orders received, inventories, receivables and market contribution, which is a profitability measure. The soft targets, however, were more varied: “I feel that my boss has my particular job description in mind when he sets the soft targets” (HR Manager). Therefore, these measures include team building, competence mapping, net promoter score (a customer satisfaction measure) and improved sales follow-up structures for a particular company. In regards to the soft measures, a majority of the interviewees highlighted that the way it works in ManuComp is to measure soft targets quantitatively as it would become problematic without basing the assessment on some figures. “Measuring my soft targets is very difficult because it’s so subjective. Essentially, the evaluation of my performance on those targets depends on how good of a relationship I have with my boss because I have to convince him that I worked in line with the targets” (GM).

***Rewards: equally divided between the division and the individual, local company***

In Table 3, the rewards section outlines the organizational level that the measures relate to. The distinction between general and individual goals is the degree of ownership that the interviewees feel over their different VC targets, i.e. how related they are to their direct work. Total revenues for the division is regarded a general goal whereas implementation of a particular project is coded as an individual target. On average, the Swedish VCs were rather equally divided between results on the divisional and the local own company level (see Table 3). In terms of general and individual goals, there was a slight preponderance towards general goals (Table 3). The preferences for the split between general and individual goals are diverged. One person mentioned: “The general targets are important because it indicates that we are working towards the same goals and everyone should feel that they can affect them” (HR Manager), whereas others claim that the VC should consist of more individual targets since the general ones are difficult or impossible to influence. Many interviewees also mentioned that they prefer to be evaluated on targets that are based on an organizational level as close to them as possible. “I’d rather have targets based on my own division than on the whole business area, or on the group as a whole” (GM).

SWEDEN	GM	GM	President	HR Manager	HR Manager	HR Manager	VP
<b>Corporate standards</b>							
Knowledge about guidelines	No	Yes	Yes	Yes	Yes	Yes	Yes
Participation in own VC goals	No	No	Yes	Yes	Yes	Yes	Yes
Involving subordinates in goal setting	Yes	Yes	Yes	Yes	n/a	n/a	Yes
<b>Measurements</b>							
Hard (% of VC)	70%	80%	75%	60%	75%	35%	30%
Soft (% of VC)	30%	20%	25%	40%	25%	65%	70%
Examples hard	Revenue, profit, market contribution	Inventories, receivables, cost efficiency	Revenue, profit	Orders received, revenues, cost	Revenue, profit, inventories, OVA	Profit, receivables	EVA
Examples soft	Team building	Net promoter score	Workshop culture	n/a	HR integration, competence mapping, employee survey	Competence development	Better follow-up post sale market service, improve reporting structure, improve board work flow
<b>Rewards</b>							
Group	n/a	n/a	n/a	n/a	n/a	n/a	30%
Business area	n/a	n/a	n/a	n/a	n/a	n/a	
Division	50%	20%	75%	60%	Majority - financial	40%	
Own entity	50%	80%	25%	40%	Soft targets	60%	70%
General	30%	80%	75%	60%	n/a	40%	30%
Individual	70%	20%	25%	40%	n/a	60%	70%
<b>Other</b>							
Willing to trade	Increase VC instead of increasing fixed salary	Yes	Good as it is	Yes	Yes, if well connected to job	No, prefer fixed salary - should be sufficient	Yes, provided that personal finances are in order
Hierarchy	Extremely, top-down	Decentralized	More structured now, which is good. Some areas getting too top controlled	Decentralized, but steering on details, more than US firm	Flat org., has not changed - compared to France	Fully decentralized, decisions made where the business is	Not at all

**Table 3:** Summary table of interviews conducted in Sweden. 'Corporate standards' plots questions relating to the interviewees knowledge about VC guidelines within ManuComp. 'Participation in VC goals' determines whether the interviewee communicates with his/her manager when their VC targets are set and if, when applicable, the interviewee in turn initiates a dialogue with subordinates when their VC targets are being set. 'Measurement' plots and exemplifies the types of measures found in VCs and differentiates between hard financial measures and softer measures related to intangible aspects of the job. 'Rewards' outline the organizational level that the measures are based on. The distinction between general and individual goals relates to the degree of ownership the interviewee feels over the target. Total revenues for the division is regarded a general goal whereas implementation of a particular project is coded as an individual target. Finally, 'Other' encompasses the individual preferences in regards to the VC system of the different interviewees and how they perceive the hierarchy within ManuComp. When the interviewee has been unable or not willing to answer a question, this has been coded with 'n/a'.

***Preferences: diverging but requesting earlier receipt of targets more linked to own job***

Finally, Table 3 highlights the preferences and thoughts of the interviewees in regards to the VC system at ManuComp. An interesting aspect of the Swedish interviewees is their diverging preferences. While some would like to see a higher importance and larger weight on the VC, there are others who were rather negative to the whole concept of VC and instead would like to have a fixed salary only. “What motivates me the most are challenges and the job tasks per se. The VC is not the most important to keep me motivated” (HR Manager). Additionally, there are interviewees who would like to see fewer, more focused targets and those who are happy with the current system, but would like the VC targets to be sent out much earlier, preferably during the first month of the year, and then continuously reviewed during the year. Something to note is also that some have voiced a preference for more easily measurable targets, i.e. of less subjective nature, while others would like to see a larger part of the VC being made up of softer targets.

When asked about the choice between a higher fixed or variable compensation, more than half of the interviewees were positive to seeing a higher weight of the VC. “I wouldn’t mind having a larger part of my total compensation being variable. I come from an American company and are used to a higher level of bonus. I believe that people get more focused when having a higher VC” (HR Manager). “I would accept a lower base salary in order to receive a bigger VC, given that the VC is well adapted to what I am doing” (HR Manager). Follow-up questions revealed that the positive attitude for many was dependent on maintaining the current level of the fixed salary and a VP said: “I think that it also requires that the personal finances are in order”. In addition, some interviewees highlighted that such a change would require the VC to be better aligned to the specific job of each employee.

To summarize, the Swedish interviews revealed that soft targets are both appreciated and less valued. More importantly, the Swedish representatives would like to see the VCs being sent out earlier and reviewed continuously during the year. In addition, the targets should be directly related to “my” job because: “I am of the opinion that money actually is motivating, especially when the measures are affecting the results, and I wish that more people in the organization would acknowledge that” (HR Manager).

**4.3.2 Germany: hard targets based on own unit and externally approved**

Please refer to Table 4 for a summary of our results from the interviews in Germany. In the following paragraphs we will describe the qualitative data in more details.

***Corporate standards: extensive support from the ‘Mercer’ study and a strong will to involve***

More than half of the German sample were aware of some sort of guidelines being in place within ManuComp, either on central group level or further down in the organizational chart, i.e. in the business areas or within the division to which they belong. An interesting comment that was mentioned by several interviewees was their hesitance to whether the standards for Germany were valid for the entire group or just specific for their own country: “That’s how we do it in my company” (GM). “It depends on the company, they all have some sort of processes” (HR Manager). In relation to this hesitance, one GM mentioned: “There’s a mission, a long-term goal statement. Based on that you have your annual targets that are

linked to this VC". Most of the interviewees were aware of the different limits for different hierarchical levels. "The standard level for GM for example is a certain percentage of the fixed salary" (HR Manager). Another comment was "Yes, there are internal guidelines that decide over the VC. Since they are written it's easy to follow them" (HR Manager). Complementing questions on the guidelines also revealed that the German operations are strongly influenced by powerful unions that have a big say in how the total compensation package is designed and implemented. "We have unionized contracts which means that the incentive plan is predefined and worked out between us as employer and the union" (President). Hence, for middle management, parts of the VC are discretionary and changes quite a lot from year to year. This is because German legislation requires ManuComp to negotiate with the unions if they give a similarly structured and sized VC a few years in a row. "Once it has become a 'rule', we are bound by the system and unable to stop, change and increase it as we want" (President). In relation to these local customizations, one interviewee mentioned that he within his global shared service organization adapts the components of the compensation package to the different countries in which his employees are working: "I would say that it depends on where you are, we follow local rules when it comes to locally employed people".

For both the fixed salary and the VC, the German divisions make extensive use of the "Mercer study", which is published by an external consulting firm and benchmarks salaries of different job roles across industries in Germany. Using those findings as a base, ManuComp in Germany determines the compensation package for primarily middle management. Additionally, one GM mentioned that it is common among the upper level managers to discuss the VC percentages with their HR managers in order to align VC levels across the division.

Participation in the VC target setting varies across the German sample, with approximately half claiming to be somewhat involved in the decisions pertinent to their individual VC. Despite of this we hear comments such as "I have zero discussion with my manager" (GM) and "I just receive my targets, there is no real discussion" (GM). Another comment from a GM was: "These things are not open for discussion within ManuComp, the VC is just handed down to me". Regarding the involvement of their subordinates, all managers, where applicable, maintained that they invited their team members and together decided upon which targets to include in the VC. "I want my people to be involved" (HR Manager). An additional comment was: "Since I don't like the process with my own manager, I make sure to discuss the VCs with my employees" (GM). Despite receiving their own targets later in the year, some GMs handed out VCs already in January: "As a GM, I can accept that it comes late, but lower level people do not have my perspective. They do not understand the system like I do and would not accept that VCs come late, they would think that it's unfair" (GM).

***Measurements: focus on hard targets, while soft targets are perceived quantitatively***

40 to 80 percent of the German VCs constitute hard targets whereas the interval for soft targets is 20 to 60 percent. Measures relating to sales, profits and market contribution (profitability) are the most common hard targets. The soft targets are more varied and sometimes dependent on the specific job: people management, employee appraisals, new service structures and implementation of a new training concept to mention a few. While a majority of the interviewees acknowledged that the soft targets can be hard to measure due to

their subjective measure, they pressed that these targets can be both measured and perceived from a quantitative perspective: “I have a focus on softer aspects, for example a new training concept. But I see it as a hard fact, because if I have done it I have done it and then it’s done” (HR Manager). Additionally, one interviewee highlighted that although soft measures require a certain degree of subjectivity in the way they are evaluated, they are nevertheless among the most important aspects of the work: “Soft measures are the most difficult ones, but of course you can’t have numbers on all of them. Naturally, those things are very important and you think about these things too – that’s part of normal work. Also, the evaluation of these soft targets is fair most of the times.”

***Rewards: mainly based on the own organizational unit***

The rewards in Germany are on average mainly based on the individual unit in which the interviewee is employed. The representative from the shared services had measures based on group results whereas the VC targets for their colleagues in the operations were more clearly divided between their own unit and the division. Also in Germany it seems like the interviewees prefer to have targets that are based on their division’s performance or their own. “I wouldn’t find it good if measures were based on the whole group or the business area. It’d be too difficult to affect the results on group level” (HR Manager). However, one person mentioned: “We are all sitting in the same boat. Only my part cannot drive the whole company” (GM). Another comment was: “It’s important that we work as a team in Germany. I can see that everyone is first working for their own division and then for the bigger group or business area” (HR Manager), which shows that the person thinks it is important to understand that they are all a part of the ManuComp group as a whole.

***Preferences: earlier arrival of VCs and easier way of measuring soft targets***

Preferences in Germany are divided between on the one hand appreciating the soft measures as they are more directly related to the daily work: “I feel that I cannot affect the hard targets so I prefer the soft ones” (HR Manager) and on the other hand wanting to make them “easier to measure” (GM). Additionally, it was stressed a number of times that the VC targets need to come out much earlier in the year if they are to have a motivating effect. Furthermore, some interviewees would like to see a more continuous feedback process with their managers so they know how they are performing on the measures: “I sometimes feel that the VC just comes like a gratification because during the year I’ve had no clue on how my boss thinks I have performed” (GM).

A majority of the Germans are in favor of increasing the importance of the VC. Lowering the fixed salary is not appreciated, but rather changing the structural aspects of the VC so as to increase its importance and achievability in the total compensation package. “I’d trade some of my fixed salary in order to receive a higher VC. That would make me more motivated. If we over-deliver today we are not compensated for it” (GM). Others meant that a high base salary was more important: “For me, a larger fixed salary is more important” (HR Manager) and “I think it is good the way it is today. I prefer a higher base salary” (HR Manager). Related to this, one GM was skeptical that only top management was included in the VC system and would rather see it “spread down the organization”. On the other spectrum, a fair amount of the interviewees were hesitant to change the percentage split between the fixed salary and the VC and were “happy as it is today”.

GERMANY	HR Manager	HR Manager	HR Manager	GM	GM	GM	BLM	BLM	BLM	President	GM	GM
<b>Corporate standards</b>												
Knowledge about guidelines	Yes	Yes	Yes	Yes	Yes	Yes	n/a	n/a	n/a	No	Yes	Yes
Participation in own VC goals	Yes	Yes	No	No	No	n/a	Yes	Yes	Yes	Yes	Yes	No
Involving subordinates in goal setting	n/a	Yes	n/a	Yes	n/a	n/a	n/a	n/a	n/a	n/a	Yes	Yes
<b>Measurements</b>												
Hard (% of VC)	50%	40%	80%	50-60%	80%	50%	50%	50%	50%	80%	n/a	60%
Soft (% of VC)	50%	60%	20%	40-50%	20%	50%	50%	50%	50%	20%	n/a	40%
Examples hard	Revenues, gross profit, inventories	Market contribution, sales and profit	Revenues, inventory, costs	Revenue, market contribution, cost	Inventory, market share, profit	Sales, cost, market contribution, working capital	n/a	n/a	n/a	Revenues, OVA, invoicing	Income, cost	Profits, inventory, turnover, market efficiency
Examples soft	People management, training, appraisals from employees, cooperation with work councils, structure the HR department, strategic work	New training concept, customer satisfaction	People management	"They are very general"	Develop a project, work with certain aspects, launching things	Organizational development, price management	n/a	n/a	n/a	New manufacturing machine, production hours of new machine, governance role, workshops	Customer satisfaction survey based	New product range, new service structure
<b>Rewards</b>												
Group	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	20%	n/a
Business area	n/a	n/a	n/a	60%	n/a	n/a	n/a	n/a	n/a	20%	n/a	n/a
Division	50%	40%	n/a	40%	n/a	n/a	n/a	n/a	n/a	60%	n/a	20%
Own entity	50%	60%	100%	n/a	100%	100%	100%	100%	100%	20%	80%	80%
<b>Other</b>												
Willing to trade	No, fixed salary important	No	No, happy as it is	Perhaps	No	Yes and spread it down the organization	Yes	Yes	Yes	Yes	n/a	No
Hierarchy	Hesitant, but flat org.	Yes, clear management structure	n/a	Org is flat, but incentive system is strict top-down	Flat, flexible and adaptive	Becoming more hierarchical, more professional				Very flat, compared to US	Flat organization	Less hierarchical than before so pretty flat

**Table 3:** Summary table of interviews conducted in Germany. 'Corporate standards' plots questions relating to the interviewees knowledge about VC guidelines within ManuComp. 'Participation in VC goals' determines whether the interviewee communicates with his/her manager when their VC targets are set and if, when applicable, the interviewee in turn initiates a dialogue with subordinates when their VC targets are being set. 'Measurement' plots and exemplifies the types of measures found in VCs and differentiates between hard financial measures and softer measures related to intangible aspects of the job. 'Rewards' outline the organizational level that the measures are based on. The distinction between general and individual goals relates to the degree of ownership the interviewee feels over the target. Total revenues for the division is regarded a general goal whereas implementation of a particular project is coded as an individual target. Finally, 'Other' encompasses the individual preferences in regards to the VC system of the different interviewees and how they perceive the hierarchy within ManuComp. When the interviewee has been unable or not willing to answer a question, this has been coded with 'n/a'.

Summarizing the results from Germany, we see that the legal system is perceived to put up hindrances since the unions have considerable power. In terms of involvement, several managers would like to see more collaboration and communication between the superiors and the subordinates when the VC targets are being set. Finally, several interviewees expressed a willingness to restructure the VC system to make it more efficient, including other measures, involving more people further down in the hierarchical levels and making sure the VC is sent out much earlier in the year.

#### **4.3.3 Belgium: less participation in setting targets and a preference for fixed salary**

Please refer to Table 5 for a summary of our results from the interviews in Belgium. In the following paragraphs we will describe the qualitative data in more details. The results from one of the interviews in the HR department are less complete in the table since that individual is not part of the ManuComp VC system.

##### ***Corporate standards: scarce knowledge of guidelines and low participation in target setting***

In regards to knowledge about any guidelines, four out of seven interviewees were aware of any such standards. In addition, interviewees in Belgium claim that their units do not apply the percentage of fixed salary method, but have a predetermined fixed amount for a certain hierarchical level that can be achieved and earned as a variable compensation. “Since I receive a fixed amount, I have never calculated the exact percentage of my VC, but now that you ask me I think it’s around XX percent”<sup>10</sup> (GM). Other comments were: “From what I know there is no official rule, but I think it is X percent for GMs” (GM). “I don’t know if there are any guidelines. I guess my manager has to share his VC plan for the person above him. That’s how I think it works” (GM). Another GM showed some more knowledge: “We have X percent across the whole group in terms of internal services. However, in for example China we need to give more because of cultural differences.”

Participation in setting the VC goals is less common in Belgium, where two out of six people claimed to just be handed the targets from their boss. “I receive a letter in the beginning of the year from my boss” (HR Manager) and “So far, no real discussion with my boss” (VP). However, a GM from the shared finance department argued: “It is not just a top-down delivery, also a common agreement”. It was also mentioned by two of the interviewees that “We always discuss the soft measures” and “Both parties have to agree and there is usually possibilities to talk about this”. More or less all interviewees who are in a position of also setting the VC targets for their subordinates, however, highlighted that they aim at involving their employees as much as possible.

##### ***Measurements: equal division between hard and soft measures***

The Belgian VC targets are quite evenly divided between hard and soft measures; the intervals are 45 to 60 percent and 40 to 55 percent respectively. Some interviewees knew the exact division between hard and soft measures, whereas others were more hesitant: “I don’t know the exact number by heart, but I think it’s 60 percent hard and 40 percent soft” (GM).

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<sup>10</sup> This percentage was very close to the centrally decided level on how much a GM should receive.

BELGIUM	GM	GM	HR Manager	VP	GM	HR Manager	VP
<b>Standards</b>							
Knowledge about guidelines	No - fixed amount	Yes - fixed amount	Yes - fixed amount	Yes	Yes	No	No
Participation in own VC goals	No	No	Yes	No	Yes	n/a	No
Involving subordinates in goal setting	n/a	Yes	n/a	n/a	Yes	n/a	n/a
<b>Measurements</b>							
Hard (% of VC)	45%	50%	50%	60%	50%	n/a	Majority
Soft (% of VC)	55%	50%	50%	40%	50%	n/a	
Examples hard	Cost, profit, inventories	Revenue, profit, receivables, inventory	Turnover, profits	Inventory, project results, sales profit (division)	EVA, NPS, efficiency	n/a	Revenue division, profit, business line contribution, total profit BA
Examples soft	Product quality, communication efficiency, on-time product development, health and safety	Safety, customer satisfaction, introduction of SAP, projects to run	Follow up, training, appraisals, accidents, illness	Project implementation, competence development	Customer satisfaction - yearly survey	n/a	Realizing projects
<b>Rewards</b>							
Group	n/a	n/a	n/a	n/a	30%	n/a	n/a
Business area	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Division	Small portion	Small portion	None	Majority	n/a	n/a	70-80%
Own entity	Majority	Majority	Majority	Majority	70%	n/a	20-30%
<b>Other</b>							
Willing to trade	No	No	No	No	No	n/a	No
Hierarchy	Flat firm	Flat	Flat, good communication	Flat, compared to peers	Quite flat overall	Yes, clear structures	Fairly flat, but hierarchy is there too

**Table 5:** Summary table of interviews conducted in Belgium. 'Corporate standards' plots questions relating to the interviewees knowledge about VC guidelines within ManuComp. 'Participation in VC goals' determines whether the interviewee communicates with his/her manager when their VC targets are set and if, when applicable, the interviewee in turn initiates a dialogue with subordinates when their VC targets are being set. 'Measurements' plots and exemplifies the types of measures found in VCs and differentiates between hard financial measures and softer measures related to intangible aspects of the job. 'Rewards' outline the organizational level that the measures are based on. The distinction between general and individual goals relates to the degree of ownership the interviewee feels over the target. Total revenues for the division is regarded a general goal whereas implementation of a particular project is coded as an individual target. Finally, 'Other' encompasses the individual preferences in regards to the VC system of the different interviewees and how they perceive the hierarchy within ManuComp. When the interviewee has been unable or not willing to answer a question, this has been coded with 'n/a'.



“I don’t know exactly, but I think most of it goes with the hard measures” (VP). Most commonly mentioned hard targets included revenues, cost and profit. Other measures were inventories, receivables and various efficiency measures such as EVA and NPS. The soft measures were somewhat broader and included a longer list: training, follow-up, customer satisfaction, project realization, number of accidents and sick leave days, communication efficiency and on-time product development.

***Rewards: unaware of organizational base of targets***

In Belgium, the interviewees were hesitant to give precise number on what the VC targets are based, i.e. on the own unit, the division or the business area. “I’m not sure on the precise base” (GM). Instead, most of them claimed that a majority of their targets were based on their own unit. “Measures are mainly based on my division and my own performance” (GM) and “Right now, I can only influence 20 to 30 percent myself. All other targets are linked to the performance of my division” (VP). The representatives from the shared service organizations had one part based on either group or overall divisional results, depending on where in ManuComp their superior was situated; if in HQ, there was a portion of overall Group results, and if in a specific division, one part was linked to the overall result of that particular division.

***Preferences: base VC on the own performance and maximize the fixed salary***

Considering the preferences, it seems like most of the interviewees prefer measures that are as close to their own performance as possible. “I prefer divisional level. I would not be comfortable knowing that my VC depends on how other countries are performing. Also, someone else should not profit from performance they have not been part of” (HR Manager). Another comment emphasizing this was: “I prefer my VC to be in my own control” (VP). However, some mention that they would consider part of their VC to be based on broader levels. “Adding part of the entire business area would not be an issue, because we are working for the organization and the business area and then for the whole group” (GM). “I prefer targets that are mostly linked to what I can achieve myself, but group targets should be there too” (VP).

There is a strong preference for maximizing the amount of the fixed salary in Belgium: “As much fixed as possible, that’s what I would prefer. I’m happy as it is now” (GM). Another interviewee explained that a high total compensation is not the most important: It’s the whole package, including work-life balance, insurances, a company car, our corporate culture and the people who are in here” (GM). Hence, the Belgian sample categorically answered “no” when asked if they are willing to increase the size of their VC by trading some of their fixed salary. Additionally, there was some slight skepticism against the system with VCs since: “I always see my own unit over the entire firm and a higher VC would not motivate me as much as a higher fixed salary” (HR Manager). Moreover, external factors limiting the success of the system were mentioned: “It would be more optimum to put my VC in a pension fund because a lot of money disappears in taxes”. In regards to this motivation, one interviewee highlighted that: “It’s good to work against yearly targets, but it only makes sense if they come in time. Now I get my VC after five to six months. It’s a matter of priorities.” The combination of hard and soft measures was appreciated, but several interviewees stressed that the weight of the soft measures should not increase and, more importantly, the soft measures should be

made much more easy to measure. As voiced by one of the GMs: “I see soft targets as hard figures being spoken about in a soft way”.

## **5. Analysis: two theoretical perspectives on the incentive system design**

This section presents our analysis of the empirical data and is divided in accordance to our research questions. The underlying question of this thesis is if decentralized MNCs adjust their incentive systems in accordance to the national cultures of their subsidiaries, where we operationalize national cultures by applying Hofstede’s four-dimensional model (1980). However, we begin this section by evaluating whether ManuComp’s VC system can be regarded as globally standardized or locally adapted. This first step, before the Hofstede analysis, is very important since our case company is a decentralized firm, which implies that the organizational structure *suggests* that we can expect to observe a certain degree of local autonomy of the subsidiaries. Therefore, the aim of this first part of the analysis is to evaluate, from an empirically driven perspective, whether ManuComp is in fact displaying indications of allowing for leeway for local adaptations of the VC system within the subsidiaries. Our conclusion from this first part is that we have found mixed indications of both global standardization and local adaptation due to the nature of the central guidelines. Given this finding, the next question pertains to whether our observed results of local adaptation can be explained by applying Hofstede’s theoretical predictions on national cultures. While we find partial support for certain dimensions, more specifically power distance and uncertainty avoidance for Belgium, our main conclusion is that this theory is an insufficient tool to *fully* explain our observed results. To further extend our analysis of why we observe a mixture of standardization and adaptation, and in line with previous research’s critique of Hofstede, we therefore refer to theory on the corporate culture construct. That analysis reveals that the design of ManuComp’s VC system is affected by underlying corporate values, implying that ManuComp is characterized by a strong corporate culture. This in turn enables a form of implicit steering of the entire group and explains why we observe such similar processes across the three examined countries, despite ManuComp’s decentralized structure.

### **5.1 Country comparison: mixed indications of standardization and adaptation**

From previous research within management control systems and how they are designed in MNCs, we know that these complex organizations on the one hand struggle with the choice of global standardization versus local adaption, and on the other hand with how to manage the inherit tensions created by national cultures when operating across geographical borders. The purpose of this thesis is to investigate how ManuComp adjusts the design of its incentive system across geographies, with a particular focus on examining if this adjustment is to the national cultures of its subsidiaries. This first part of the analysis will, from an empirically driven perspective, examine and investigate predetermined global standardization versus local adaptation. Given our data, what can we learn regarding this aspect of operating as a decentralized MNC: is the strong force standardization, adaptation or something else?

### 5.1.1 Corporate standards: varying knowledge and difference in participation

In relation to knowledge about the central guidelines<sup>11</sup>, Sweden is the country with the largest part of interviewees (six out of seven = 86%) indicating to be aware of any central VC guidelines within ManuComp. An interesting aspect of this ‘knowledge’ across the three countries, however, is how it varies in degree: “I have never checked exactly what the guidelines say, I believe more in learning by doing” (GM, Sweden) is a quote which can be contrasted to how a Swedish representative from the HR department expressed it: “Yes, there are guidelines and it’s pretty clear what should be included”. Considering this detailed knowledge, there were a larger part of the German interviewees, across hierarchical levels, who could share insights relating to the detailed content of the guidelines. While Belgium had the smallest portion of interviewees indicating any knowledge, these representatives were able to discuss different aspects of the guidelines to a much larger extent than their Swedish colleagues. This discussion arises the question whether we should evaluate just how many people know that the guidelines exist versus actual knowledge of the content of the guidelines. From the perspective of standardization and adaptation, it is interesting to note that the guidelines are there to yield some form of standard VC structure across the countries in terms of maximum percentage and the organizational process, but that the irregular knowledge of the contents illustrate local adaptation since managers in the three countries put different emphasis on first reading up on the guidelines and then communicating this knowledge within their management teams.

The second aspect of the standards relate to the participation and involvement of the interviewees when VC goals are being set for either themselves or their subordinates. From a yes/no perspective, Sweden, again followed by Germany and Belgium, has the highest score on own participation, whereas every single interviewee in the three countries, where applicable, claim to initiate discussions and involving their subordinates when deciding on VCs. When asking a GM in Germany about how the process works for him, he replied with: “These things are not open for discussion within ManuComp, the VC is just handed down to me”. However, in regards to his own employees, the same interviewee had a completely different approach: “Since I don’t like the process with my own manager, I make sure to discuss the VCs with my employees”. In addition to the actual state of these processes, it is interesting to compare the results for knowledge of guidelines and participation in goal setting. First of all, much of these results come down to perceptions and how the interviewees, as a superior and subordinate respectively, feel that the process is being handled. It might be that the superior feels that the employee has all the chances to be as involved as he/she wants, but that they should take some own initiative to show that, whereas the subordinate might expect the boss to invite them for a discussion on the VC targets. In short, no matter how the process actually works, if it is initiated from either the employee’s or the superior’s side, we can see a form of adaptation to preferences once there actually is a mutual agreement between VC target setter and VC target receiver. “We changed my targets at the half year turn so that I focused on the right things” (HR Manager, Sweden).

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<sup>11</sup> To recap, ManuComp’s VC guidelines outline (i) the maximum VC of the fixed salary, (ii) the yearly cycle and (iii) that the process of determining the VCs follows the grandfather-principle.

### **5.1.2 Measurements: different preferences for hard/soft targets yield adaptation**

Firstly, it should be highlighted that the data on how the VC targets are divided between hard and soft targets in the three countries rests on the perception of the interviewees: “I don’t know by heart but I think it’s 60 percent hard and 40 percent soft” (VP, Belgium). While somebody in Germany or Belgium might regard customer satisfaction, for example, as a soft target, the same target might be seen as an obvious hard target in Sweden. “I have a focus on softer aspects, for example a new training concept. But I see it as a hard fact, because if I have done it I have done it and then it’s done” (HR Manager, Germany). Secondly, we have observed large differences in the intervals of this separation between the type of target across and within the three countries. In Sweden, the hard targets range from 30 to 80 percent of the VC, while the corresponding values are 40 to 80 percent and 45 to 60 percent for Germany and Belgium respectively. Combining this insight with the results on participation and involvement, we can see that there seems to be a link between these two: the more involved the interviewees, the larger interval we observe in those countries. In other words, these intervals could indicate that the participation and involvement is reflected in the size of the interval. The question then is if the Belgian superiors are aiming for a more equal division between hard and soft targets since the interval is tighter compared to the other two countries? From the perspective of standardization and adaption, we can thus conclude that we are able to observe larger indication of adaptation in terms of how the two types of targets are divided in the three countries. Relating back to the content of ManuComp’s guidelines, this result is not surprising since they only regulate the overall structure and form of how the VC system should function, not the detailed content.

### **5.1.3 Rewards: irregular patterns in line with expectations due to guidelines**

Within, as well as across the three countries, the VC targets are highly varied with large intervals. Instead of seeing patterns on country level, it appears that this aspect of the VC depends on several things: hierarchical level, role and preferences. Intriguingly, however, it was only the Swedish interviewees that made a distinction between individual and general goals. Moreover, the intervals of these two reward types coincide with the Swedish interval for hard and soft targets. Is this a mere coincidence or can we read something deeper from this finding? From the perspective of standardization and adaptation, it could perhaps reflect a form of strategic maneuver from Swedish management in terms of how they want to involve their employees. By referring to the hard targets as ‘general’ and the soft targets as ‘individual’, they can potentially be able to steer their employees to focus their involvement to the individual targets. From the perspective of a Swedish employee, he/she might be able to accept such a division since the general targets are perceived as equal for everyone and thus harder to change, whereas the soft, individual targets can be seen as developed specifically for myself. In essence, this is a difference particular for the Swedish data not found in the interviews from Germany and Belgium, which can indicate a form of adaptation.

The interviewees expressed different preferences for what organizational level the targets should be based on: “I’d rather have targets based on my own division than on the whole business area or on the group as a whole” (GM, Sweden). Hence, the different preferences could be reflected in the broad intervals, which once again indicate adaptation. This is in line with our expectations since the guidelines do not stipulate exactly how the VC targets should be set. Since the divisions are regarded as the highest operating units, they are free to decide

on this themselves depending on hierarchical position, role and preferences of the interviewee. This investigation of 'Rewards' has suggested that our interviewees sometimes have strong and varying personal preferences in regards to various aspects of the VC system. Let us therefore continue this analysis by digging deeper in how ManuComp has potentially adjusted the VC system in accordance to these preferences.

#### **5.1.4 Other: personal preferences highlight possible room for adaptation**

When examining the personal preferences in the three countries, it is striking that none of the Belgian interviewees were willing to trade, i.e. to increase the share of the VC despite being under the condition that they could receive a higher total compensation. "As much fixed as possible, that's what I would prefer. I'm happy as it is now" (GM, Belgium). For Sweden, the results were rather the opposite with nearly three fourths of the interviewees indicating a positive attitude for such a trade: "I wouldn't mind having a larger part of my total compensation being variable. I come from an American company and am used to a higher level of bonus. I believe that people get more focused when having a higher VC" (HR Manager, Sweden). For Germany, just about half of the interviewees would agree to trade: "I'd trade some of my fixed salary in order to receive a higher VC. That would make me more motivated. If we over-deliver today we are not compensated for it" (GM, Germany) versus "For me, a larger fixed salary is more important" (HR Manager, Germany). Here, we clearly see that the preferences for how the compensation should look like differ between the countries indicating a possibility for ManuComp to allow for adaptation in order to incorporate the personal opinions of the employees as much as possible. However, the data reveals that ManuComp has not taken the alignment to personal preferences this far. The adaptation is more related to how different aspects of the incentive system are communicated. In Belgium, for example, the VC is communicated as a fixed yearly amount that they can achieve, despite this figure being in line with the percentage outlined in the central guidelines for the VC to GMs. Their Swedish and German colleagues, however, were much clearly communicating that they see the VC as something variable, something to *actually work for*, even if it has a maximum yearly amount.

Lastly, we would like to highlight that a majority of all interviewees in the three countries perceive ManuComp as a flat company in terms of hierarchy: "It's a flat organization and everybody is approachable, you do not have to go through a particular path which was the case for me before" (HR Manager, Sweden). Considering the overarching question of standardization and adaptation of this first part of the analysis, a potential conclusion is that the employees might expect a larger degree of adaptation than standardization: "In my opinion, it's quite a flat organization as we avoid having too many layers" (GM, Belgium). The analysis above has indicated that ManuComp has created a VC system that is partly standardized in regards to having some form of centrally decided guidelines on the general structure of the VC system, but it also allows for local variation when it for example comes to the detailed content of the VC targets. In short, both forces of standardization and adaptation are in place depending on which aspects we consider. Overall, the VC system has a standardized high-level frame, which gives the general structure, but when it comes to the detailed contents, there are indications of variation both across and within the three countries. Returning to the aim of this thesis, we have now discussed the choice of standardization and

adaptation from a general view on our data. The next question to consider is if our results and this first part of the analysis are in line with predictions made in theory on national cultures, predictions that we outlined in the second section of this thesis. That will now be explored in greater detail.

## **5.2 Applying Hofstede's four-dimensional model: insufficient to explain results**

We will now apply Hofstede's theory on national cultures, dimension by dimension. We do this by first discussing what results his theory suggests that we should observe by referring back to the ranking of the three examined countries on the four dimensions (Table 2, p. 26). These theoretical prescriptions are then compared to our empirical data and we discuss any eventual similarities, differences and potential observations that the theory is unable to explain. This analysis is summarized in Table 6 (p. 54).

### **5.2.1 Power distance: discretionary power in incentive determination in Belgium**

As previously mentioned, Hofstede (2001, p. 98) defined power distance as: "the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally". We can observe that Germany and Sweden are close in their ranking (35 and 31 respectively), implying that we should expect similar results, while Belgium scores significantly higher (65). This implies that in Belgium we should expect (i) larger wage differences across hierarchical levels (Harrison, 1993; Merchant et al., 1995; O'Connor, 1995), and (ii) a greater acceptance of discretionary power in incentive determination (Brossard and Maurice 1974). Regarding the former, we only have data that makes it possible for us to compare how large the VC is of the fixed salary at different hierarchical levels. Concerning the latter, to evaluate whether more discretionary power is used in incentive determination is to look at the employees' knowledge about guidelines and how involved they are when their VC targets are being set. A weak knowledge and low participation would imply a greater acceptance of discretionary power.

Looking at the empirical data, we are not able to draw any conclusions regarding the differences in total compensation across hierarchical levels in the different countries, nor can we see differences in the maximum VC as a part of the fixed salary. The reason for this are the central guidelines within ManuComp that set a maximum achievable VC for upper and middle management across the three examined countries.

Given the rankings on this dimension, we expect Sweden to have the highest score on knowledge about guidelines, followed by Germany and lastly Belgium. A potential alternative interpretation could be to expect the Swedes to not have any knowledge about the guidelines under the assumption that their lack of accepting discretionary power results in not caring about the guidelines at all. Essentially we would assume that Swedes think in line with 'we do our own thing anyway'. However, the reasons for why we do not agree with this interpretation and instead expect the Swedes to have the highest knowledge lies in the existence of the guidelines, which stipulate the application of the grandfather-principle. The grandfather-principle does not allow managers to *not* follow the guidelines, even if they are

loose by nature. That is just not possible. If we therefore take the role of an employee with a low score on power distance, who receives the VC, theory predicts an aversion against unfair treatment, meaning that this person will take every measure to actively make sure that he/she receives as fair a VC as possible. In contrast, an employee with a high score on power distance, which means that he/she accepts the use of discretionary powers, will accept, once the VC has been given, that the boss has made a fair decision. He/she will not feel any need of double-checking against the guidelines. Hence, we expect Swedes to be most knowledgeable about the guidelines and we find support for this in our results, where the Belgian interviewees have the lowest level of knowledge about the central guidelines compared to their Swedish and German colleagues (Appendix 2). As one Belgian representative expressed his knowledge about the VC guidelines: “I don’t know if there are any guidelines” (GM).

There is also a noticeable difference between the countries when it comes to participation in VC goal setting. The lowest participation was in Belgium: “Until now, no real discussion with my boss”, and considerable higher in Sweden and Germany, where Sweden shows the highest degree of participation in VC goal setting among the three countries. This result is also in line with our theoretical prescriptions. The observed result could at least partly be explained by the fact that, in line with Hofstede’s framework and according to Brossard and Maurice (1974), the people in Belgium have a greater acceptance for discretionary power being used in VC determination: “I’m happy as it is now” (GM, Belgium). A majority of the interviewees in Belgium claim that the targets are just handed to them by their boss: “I receive a letter in the beginning of the year from my boss” (HR Manager). However, it appears that they do not seem to be all too upset with this direct top-down approach since a majority did not communicate a wish or need for changing this particular aspect of the VC system.

The conclusions to be drawn from the first dimension are: (i) we are unable to see any larger differences in VC between the hierarchical levels in Belgium as compared to Sweden and Germany due to the global guidelines, and (ii) more discretionary power is being used in Belgium in terms of less knowledge about VC guidelines as well as less participation in VC determination, i.e. we see a certain degree of adaption in accordance to Hofstede’s model in Belgium given the score on power distance.

### **5.2.2 Uncertainty avoidance: partial theoretical support for Belgium**

Uncertainty avoidance is the second dimension and is defined as: “the extent to which the members of a culture feel threatened by uncertain or unknown situations” (Hofstede, 2001, p. 161). This is the dimension in which we see the largest differences among the countries. Sweden scores the lowest (29) while Belgium was given the highest ranking (94) and Germany lies in between (65). To refer back to our theoretical expectations, we remember that individuals in cultures characterized with a high level of uncertainty avoidance generally prefer an incentive system that is based on clearly specified, quantitative targets that provide an unambiguous relation between effort, evaluation and compensation (Harrison, 1993). This implies that employees in cultures that are high in uncertainty avoidance are likely to react unfavorably to compensation that is based on performance (i.e. a high VC) since it then

causes them to take on a bigger risk than if the salary was fixed. High uncertainty avoidance cultures are also likely to avoid highly discretionary bonuses as opposed to formula-based. Hence, if ManuComp has adjusted the design of its VC to the local preferences, we are likely to, in Belgium, see a relatively low maximum VC of fixed salary, i.e. as large part as possible of the total compensation should be fixed. Moreover, the Belgians should be the least willing to trade a part of their fixed salary for a higher VC, despite having the opportunity of thereby receiving a higher total compensation. We are also likely to experience a relatively low part of the VC being based on soft, subjectively measured targets in Belgium. The opposite should then hold true for Sweden, while the results for Germany should lie in between Belgium and Sweden.

Due to the central guidelines, we can conclude that ManuComp does not adapt the maximum VC of fixed salary given in each country. However, when it comes to the preferences, the data reveals some interesting patterns. In line with theory, the interviewed Belgians were consistently negative to trade a part of their fixed salary for a higher VC in order to be able to receive a higher total compensation: “As much fixed as possible, that’s what I would prefer” (GM, Belgium). Also, as per theoretical prescriptions, the Swedes were the most willing to accept such a trade off: “I wouldn’t mind having a larger part of my total compensation being variable” (HR Manager, Sweden). As expected, the Germans lie in between.

Due to the high Belgian score on uncertainty avoidance, we expected the VCs in Belgium to be less focused on soft measures. However, it should be noted that this does *not* imply that Swedes and Germans *prefer* soft measures; it only means that these cultures are less negative to soft VC targets. Hence, we are unable to say which country should have the highest percentage of soft measures as this would imply that we believe this country to prefer having a larger part of such measures in their VCs. Comparing the intervals of how large part of the VC that is based on soft measures, Appendix 2 shows that the intervals reveal a higher variation in Sweden (20 to 70 percent) and Germany (20 to 60 percent) as compared to Belgium (40 to 55 percent); something that indicates that the share of soft measures in Belgium seldom goes below 50 percent. From a Hofstede perspective, this is surprising since we would expect Belgian VCs to have a narrower interval on the lower scale. Hence, these results do not speak in favor of adaption in line with Hofstede’s theory, nor can we observe any standardization patterns across the countries.

From the analysis of this dimension, we can conclude that: (i) ManuComp does not adapt the maximum VC to national cultures due to the central guidelines, (ii) the data on preferences when it comes to willingness to trade fixed salary for a higher VC are in line with theory, and (iii) the results do not support any adaption according to theory in regards to the weight of soft versus hard measures, nor do we observe any attempts of standardization.

### **5.2.3 Individualism versus collectivism: inconclusive nature of the empirical data**

As already mentioned, individualism and collectivism are the two poles of a dimension and can be defined as (Hofstede, 2001, p. 225): “individualism stands for a society in which the ties between individuals are loose: everyone is expected to look after him/herself and his/her immediate family only. Collectivism stands for a society in which people from birth onwards are integrated into strong, cohesive in-groups, which throughout people’s lifetime continue to



protect them in exchange for unquestioning loyalty”. When it comes to individualism, the three countries are ranked very similarly (71, 67 and 75 for Sweden, Germany and Belgium respectively). Assuming that ManuComp adjusts its VC to the local cultures, we would, according to Hofstede, expect to see rather similar designs when it comes to the dimension individualism. This implies that the VC targets should to the same extent be based on group, business area, division and own entity level across the three countries.

An interesting aspect of the data is the large variation in how the rewards are based on different organizational levels across the three countries. There are both low and high values as well as narrow and broad intervals without any real regularity. Therefore, we cannot identify any patterns pertinent to any country. Instead, it appears that this aspect of the VC system depends on the interviewee, i.e. their specific hierarchical position and type of company in which they are employed. In short, due to the inconclusive nature of our data we are unable to determine whether ManuComp has adapted the design of the VC system as per the ranking of the three countries on individualism.

#### **5.2.4 Masculinity versus femininity: observed results are not in line with theory**

The fourth and last dimension is masculinity versus femininity and are, as already mentioned, defined by Hofstede (2001, p. 297) as: “masculinity stands for a society in which social gender roles are clearly distinct: men are supposed to be assertive, tough, and focused on material success; women are supposed to be more modest, tender and concerned with the quality of life. Femininity stands for a society in which social gender roles overlap: both men and women are supposed to be modest, tender, and concerned with the quality of life.” From the rankings on masculinity, we see that Germany and Belgium score rather similarly (66 and 54 respectively), while Sweden is ranked considerably lower (5). According to Harrison (1993), the expectation for people in Germany and Belgium is to have a relatively strong desire for achievement and competition, which implies a stronger focus on performance, meeting targets and relative performance evaluations. If ManuComp has adjusted the design of the VC to national cultures, we should hence expect the VCs in Germany and Belgium, as compared to the VCs in Sweden, to have more of the hard and easily quantifiable measures and fewer of the soft measures, since more discretionary power is used when evaluating such targets.

The results from our empirical data are not in line with Hofstede’s theory. We expected Germany to have the highest ratio of hard measures due to their score on masculinity, and the opposite for Sweden. In reality however, looking at the interval, we see that Sweden and Germany have fairly similar intervals (30 to 80 percent in Sweden versus 40 to 80 percent in Germany). One could of course argue that Germany lies slightly higher since it has a narrower interval. Looking at Belgium, however, we see a pretty narrow interval, where the maximum share of hard measures is considerably lower than in Sweden. Hence, we can conclude that the VC system has not been adapted as per Hofstede’s theoretical predictions.

Dimension	Theoretical expectation	In line with theory?
<b>Power Distance (PD)</b>	Larger wage differences across hierarchical levels in Belgium	No
	More discretionary power in Belgium, reflected in weaker knowledge of VC guidelines and lower participation in VC determination	Yes
<b>Uncertainty Avoidance (UA)</b>	Lower maximum VC in Belgium; as large part as possible should be fixed	No
	Belgians less willing to trade part of fixed salary for a higher VC	Yes
	Lower part of soft measures in Belgium	No
<b>Individualism (IND)</b>	VC targets based on different organizational levels to the same extent across all countries	No
<b>Masculinity (MAS)</b>	Larger part of hard measures in Germany and Belgium as compared to Sweden	No

**Table 6:** Theoretical expectations and actual outcomes for each of the four Hofstede dimensions.

### 5.2.5 Reflections on using Hofstede as an analytical tool: applicable to some extent

Having applied Hofstede's four dimensions to our data, we can conclude that his theoretical framework is insufficient to *fully* explain our observed results, e.g. why is it called VC and not bonus and why do the VCs arrive so late? We mainly found support for our theoretical expectations when it comes to two dimensions: (i) for *power distance*, we saw that more discretionary power is being exerted in Belgium when determining the yearly VC targets – something that is in line with theory as Belgium has the highest score on this dimension, and (ii) Belgians seem to be the ones that are the least willing to trade some of their fixed salary to be able to receive a higher total compensation, which also is in line with theory as Belgium has the highest score on uncertainty avoidance. However, there are many observations in our research that cannot be explained by Hofstede's framework. For example, with power distance and uncertainty avoidance we expected to find differences in the maximum VC given in the countries, but due to central guidelines, which indicate an attempt to standardize the VC on a global scale, we were not able to conclude any adaption on this factor. Other examples are that we through uncertainty avoidance assumed Belgians to have a lower part of their VC based on soft targets, and by examining masculinity we expected hard targets to be used to a larger extent in Germany and Belgium. We did not find support for any of these expectations, nor could we discover any support for Hofstede with regards to individualism, where we expected the countries to show similar results, but where large variations instead were detected. Referring back to what we said earlier about the four dimensions operating simultaneously and hence creating reinforcing or opposing effects, we should take into account that in our study, these effects are applicable to the preference for soft versus hard measures as well as individual versus group based targets. Regarding the former, Belgians are, according to their high ranking in uncertainty avoidance, assumed to have a smaller portion of soft targets. This is reinforced by the expectations that come with masculinity, where the higher ranking tells us a preference for a larger portion of hard measures among

Belgians. Despite these reinforcing expectations, we do not see any adaption to national culture in line with Hofstede's dimensions. Considering the other effect, the one on individualism, we know that the three countries are ranked rather similar. However, as Belgium scores considerable higher on uncertainty avoidance, we should expect them to have a larger preference for targets based on group performance as they then see the risk as shared. Nevertheless, because of the large variation in how the rewards are based on different organizational levels across the three countries, we are not able to see any adaptation to local culture.

There are many valid reasons for why we are unable to fully explain our observations by using Hofstede's framework. One explanation could be that his rankings are based on research conducted more than 30 years ago and that local preferences might have changed since then. Another reason can of course be that the preferences differ among the individuals in a population. Hofstede stipulated what preferences the population of a nation has in general, and since we have chosen to interview a small sample, all of which work for a specific company, there is a potential risk that they are not representative for the nations as a whole. Also, many of the interviewees have worked in ManuComp for more than 20 years and have thus had the opportunity to work for the company in a number of different countries, which also may have influenced their individual preferences.

In sum, this analysis has revealed that we are unable to fully explain why the VC system at ManuComp is designed the way it is by only applying Hofstede's theory. Therefore, in the subsequent section, we hope to develop a better understanding by using theory on corporate culture. This is in line with suggestions from previous studies when Hofstede's framework has proven to be insufficient to fully explain observed results.

### **5.3 Corporate culture: design of VC system affected by underlying values**

In this section we aimed at analyzing why the incentive system in ManuComp is designed the way it is. Thus far, we have drawn on the choice between global standardization and local adaptation and applied Hofstede's (1980) four-dimensional model on national cultures to better understand the indications of adaptation. These analyses have been able to partly explain our observed results. However, the picture is not completely covered. Why for example is ManuComp determined to use the expression "variable compensation" and not bonus? In regards to the guidelines, why are they not seen as rules? Lastly, something that has been mentioned by so many interviewees, but never really been explained, why do the VC targets come out so late? As we mentioned earlier, previous research within our field (e.g. Van der Stede, 2003), has referred to theory on corporate culture when Hofstede's model has been insufficient to *fully* explain observed results. Hence, since our interviewees mentioned various aspects of the corporate culture, we will now refer to this line of research to better explain what we observed in regards to ManuComp's VC system. More specifically, this section aims at evaluating whether we can use our empirical data to characterize ManuComp of having a strong corporate culture or not, and if this in turn has had a profound effect on how the VC system is designed.

### 5.3.1 Core values of ManuComp reflected in the VC practices

Applying the “Onion diagram” (Figure 2, p. 21) from the IRIC study (Hofstede, 2001), this analysis will examine the extent to which the values of ManuComp are manifested in the VC system, i.e. if we can see them evident in the way our interviewees behaved and reacted in relation to the practices surrounding the VC system. Using this model we will now, from a theoretical perspective, investigate if ManuComp can be seen to have a strong organizational culture.

When it comes to *symbols*, the model refers to the use of the same products, clothing and language. In terms of this last part, we see that all representatives from ManuComp consistently use the expression “variable compensation” when speaking of this particular part of their monetary compensation package. Moreover, as previously mentioned, all ManuComp offices have product prototypes, motivational advertisements in line with the core values and posters depicting Sweden and Stockholm. Hence, there are a number of both tangible and more intangible symbols that could be seen to be in line with certain theoretical expectations. In regards to *heroes*, the model highlights the tendency of having similar role models. Applying this on ManuComp, we can see that senior managers who have been part of the company for some 20 to 30 years can take on this role as we have noticed how their employees seem look up to them and respect their way of acting as managers within ManuComp due to their very long experience of the firm. When the model speaks of *rituals* it essentially means that the employees act and behave similarly – they conduct same tasks in a similar fashion. A relevant example of a ritual within ManuComp’s VC system is the grandfather-principle since it has been part of the firm for a long time and is regarded as a natural way of managing business processes. As was highlighted in the interviews, ManuComp regards the divisions as the highest operating units and therefore strongly believes in self-regulation, however, this self-regulation is supplemented by the grandfather-principle in order to keep all decisions ‘appropriate’. As such, they have instituted complementing control mechanisms that ensure that the key values permeate all processes of the firm.

In short, there are a number of observed and identified practices within ManuComp that reinforce the core values. We can conclude that ManuComp, as a modern MNC, coordinates and controls its global operations through shared practices that are inspired by HQ, but learned and accepted by all employees across the globe. From the perspective of *has* versus *is*, which regards motivation through self-realization or steering of behavior, we can see that ManuComp has a mixture of both. On the one hand, our interviewees are motivated by the corporate culture and perceive it as a differentiating factor with working for ManuComp, and on the other hand the corporate culture also steers behavior, which is illustrated in how the interviewees accept that the VC arrives so late, but do not protest loudly about it. To summarize, by applying the Onion model we can conclude that the core values of the firm are reflected in the practices of the employees, which have yielded a similar system throughout the organization and across geographical borders – all this despite being a decentralized firm. The reason for this is that ManuComp believes in self-regulation that is complemented by the grandfather-principle. That principle constitutes a prerequisite for the similar processes across the firm, processes that in turn rest on the strong corporate culture. An outstanding question, however, regards the late arrival of the VC targets. In order to answer this question, we first dig deeper in the organizational values of ManuComp; how can we explain their origin and

development? More specifically, how have these values translated into management control practices in general and VC practices in particular? These questions will be explored next.

### 5.3.2 History of ManuComp: a Swedish MNC strongly influenced by “lagom”<sup>12</sup>

ManuComp has a long history. From several interviews with senior employees that have 20 to 30 years of experience from the company, we have been able to observe and learn much about the organizational heritage within the firm. These representatives have often used expressions such as “there’s a tradition” (VP, Sweden), “that’s how we do things” (GM, Belgium) and “we just don’t believe in that” (VP, Sweden) when explaining certain aspects of ManuComp in general and the VC system in particular. “It must be fair” (GM, Belgium) was mentioned as an essential aspect permeating all practices of ManuComp. “Even if one division wants to do something differently, it can create problems and conflicts if it deviates too much from the norm” (VP, Sweden). Relating back to the work of Jaques (1951), which was among the first published on corporate culture, we see that ManuComp is portraying characteristics in line with the researched British factory, namely of having a “traditional way of thinking and doing things” (p. 251). In particular, these interview quotes highlight that ManuComp deeply values the notion of fairness, which should not be surprising considering that it is a Swedish company. The Swedish society has historically been characterized by the concept of “lagom” (Barinaga, 1999), which is a difficult expression to translate directly, but essentially can be equated with the idiom ‘less is more’, i.e. it advocates for prudence and moderation. Relating back to the key values of ManuComp, which are cooperation, engagement and renewal, we can see that they mirror the classical view on Scandinavia as an area of the world where solidarity, liberalism and egalitarianism and communal collaboration constitute the main characteristics (Hofstede, 2001). In essence, the more than 100 years of organizational heritage that comes with being a Swedish firm could potentially have had a profound effect on the culture of ManuComp in terms of what is regarded as appropriate. If we now think back to the ‘true’ key values of decentralization, self-regulation and the grandfather-principle, we believe that we can see a connection between the organizational heritage and the fact that ManuComp has adopted a form of indirect steering with a high level of independence for the divisions. That is why they regard the divisions as the highest operating units and why one interviewee specifically said that: “we do not work with central standardization” (VP, Sweden). Allowing for certain variation in local implementation of processes in order to maximize suitability, appropriateness and employee satisfaction (in other words efficiency) is not only expected, that is what the firm actually *stands for*.

Another related aspect of this strong implementation of the key values is found in ManuComp’s history of growing primarily through acquisitions. This extensive M&A activity is commonly regarded as successful as the post M&A integration has been so effective: “Before we became ManuComp, it was much more hierarchical, but now we are also flat” (GM, Germany). An example of this success is illustrated by the fact that a large part of the interviewees in particularly Germany and Belgium, where we interviewed representatives from organizational entities that have previously been acquired by

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<sup>12</sup> The Scandinavian concept of ‘lagom’ is not easily translatable and can be explained with expression such as ‘just the right amount’ and ‘just enough’, or words such as adequate, enough and sufficient. In essence, it can be compared to the idiom ‘less is more’ (Barinaga, 1999).

ManuComp, continued to refer to “my company” when speaking of their particular organizational units. This could be an indication that the local employees still feel some form of ‘ownership’ of their workplaces, i.e. that the subsidiaries are in effect operating as independent entities. “That’s how we do it in my company here” (GM, Germany). While the senior managers can clearly place the local firm in the global context in which ManuComp operates, the middle and lower management levels continue to focus on the local operations. In short, there are a myriad of firms within the firm. “It depends on the company, they all have some sort of own processes” (HR Manager, Germany). From our perspective this is an indication of successful M&A integration in line with the core values and the organizational heritage of ManuComp since these come down to, as mentioned, cooperation, engagement and renewal, i.e. decentralization and self-regulation. After the completion of the M&A process, the acquired units become a part of ManuComp and must therefore stand for the firm’s key values, which is achieved by an efficient decentralization and self-regulation that rests upon perceiving the individual divisions as the highest operating units.

While central representatives of ManuComp clearly state that the divisions are the highest operating units of the firm, it should be noted that the VC system is based on a top-down approach where the manager sets the VC targets for his/her subordinates. However, because of the grandfather-principle and the regular occurrences of managers inviting their employees to discuss the content of the VC targets, the system continues to be regarded as somewhat open, flexible and transparent. All of our interviewees are far from completely satisfied, but the general view is that the system is functioning well and that it is fair. Returning to the actual content of the VC guidelines, this system makes more sense in light of the firm’s values since the guidelines essentially only regulate a certain percentage of the fixed salary that can be awarded to GMs. All other aspects of the design of the VC lie with the division – they must only remember to follow the yearly cycle on the VCs and that the grandfather-principle is applied. Put differently, the guidelines on ManuComp’s VC system are about setting the *upper* limit, not controlling the exact content since that is believed to be best adapted locally as per the relationship between the manager and the employee. That is why we observe the large variations in percentage hard and soft measures and the irregular patterns on which organizational level the measures are based on. Comparing ManuComp’s guidelines to theory, Peters and Waterman (1982), argued that this is not surprising since successful firms have a strong culture and therefore do not need extensive manuals detailing all processes. A second aspect of the guidelines is that they facilitate the global transferability of expatriate managers; there will be no need for GMs to substantially increase/decrease the level of their VC as compared to their locally employed colleagues when they transfer to a subsidiary in another country. From a theoretical perspective, Lindholm (2000) explained that expatriates could function as bearer of the corporate culture and facilitate the implementation of similar PMS practices across the subsidiaries.

Thus far we have concluded that ManuComp has a strong corporate culture as per theory since values are exhibited in observed practices. Additionally, we now understand how these values can be put in relation to the organizational heritage and development on the one hand and the implementation of management control mechanisms on the other. A final question now is to understand how these insights can be put in relation to the late arrival of the VC targets. Can we further increase our understanding of ManuComp’s organizational culture in

terms of translating key values in observed practices by analyzing this particular aspect of the VC system?

### 5.3.3 Late arrival of VC targets illustrates underlying key values of ManuComp

To quote a Swedish HR manager: “The VC targets are prepared and distributed very late. One time I received it in November” (HR Manager, Sweden). We have also heard many comments such as: “It would be much better to receive the targets earlier so we can act thereafter. The targets are important for alignment within the group” (GM, Germany). In essentially every interview, it was highlighted that the interviewees are dissatisfied with the VC targets arriving so late, sometimes even when more than six months of the fiscal year had passed. In fact, some interviewees even mentioned that receiving their targets in the first few weeks of January would increase both their trust in the VC system and their motivation. The aim of the coming paragraphs is thus to examine why the VCs are distributed so late and understand why this has not been corrected despite the organizational wide dissatisfaction. When investigating this issue, a first question to ask is how ManuComp actually perceives the VC system. According to an interviewee, the whole concept of VCs is not a prioritized area within ManuComp – but the question remains, *why*?

From the interviews, we have learned that ManuComp has not always had a VC system: “We didn’t have the VC system before, but then we introduced it to remain competitive” (VP, Sweden). This could potentially explain why the ‘bonus’ word is prohibited within ManuComp. “It’s not called bonus because it’s not a gratification, this is an integral part of your total pay. One part is fixed and one part is variable dependent on a number of factors. That’s how we think about it here in ManuComp” (VP, Sweden). Digging deeper in this quote we are able to see that ManuComp is a firm where motivation should not be drawn from monetary aspects only. Or, to use the words of one of our interviewees: “It’s the whole package, including work-life balance, insurances, a company car, our corporate culture and the people who are in here” (GM, Belgium). Returning to Figure 1 (p. 8), which outlines previous research on incentive systems, we thus see that ManuComp has a focus on both non-monetary (culture, work-life balance and people) and indirect monetary rewards (insurances and company car). Combining this with the fact that the concept of VC is something relatively new within the firm and the top-down approach of the VC target setting, it appears that a possible root cause for the late arrival of the VC can be found in the very top layer of the firm. Recapping how the top-down approach works, it entails that every manager, usually, await that his/her boss has given them their VC before they in turn distribute the VCs to their employees. As such, the entire VC process within ManuComp is initiated from the very top when the CEO sets the VC targets for the business area executives who in turn set for their management teams. Since the top executives of ManuComp, like many of our interviewees, have been part of the firm for over 20 years, a central explanation for the late arrival of the VC could be that they do not highlight the VC per se as a motivational tool, but rather put emphasis on the *whole package*. “It’s late because of priorities” (GM, Belgium). This could explain why the VC target setting process is initiated *after* the annual report has been published, i.e. a few months in to the year.

Relating this to the core values of the firm and the general VC guidelines, it appears that ManuComp, albeit having yearly targets, has a primary focus on fulfilling the overall vision and mission of the firm. As we have learned from our interviews, this is reflected in the actual outcome of the individual VCs: “You’re never supposed to get the full 100 percent of your VC, it’s just the way the system is constructed” (GM, Germany). Why then are the interviewees not voicing this potential dissatisfaction more loudly? We have previously in the thesis discussed the personal preferences quite extensively. While these preferences do not always match the current structure of the VC system within ManuComp, the employees are not too overly dissatisfied either. Put differently, even if they are not fond of all the aspects of the system as it looks today, some have even called it old fashioned, they still accept ManuComp’s VC practices. “We are not famous for paying high salaries, that’s not why you work here” (GM, Belgium). Nevertheless, a large part of our interviewees have stayed with the firm for over 20 years indicating that they, in line with top management, value the *total* compensation package, which includes both monetary, non-monetary and indirect monetary rewards, not just the VC. In sum, the late arrival of the VC and how little is being done to change this, indicates that ManuComp has a strong organizational culture as this example can be seen as a manifestation of the corporate values. That is a conclusion in line with our application of the “Onion diagram” (Hofstede, 2001), since we are observing how values have been incorporated in practices.

## **6. Conclusions: adjustment to a certain extent across geographies**

This thesis posed the overarching question: ‘How do decentralized MNCs adapt their incentive systems across geographies?’ We conducted this research through a qualitative case study of a decentralized Swedish MNC, ManuComp, where we interviewed 30 representatives in Sweden, Germany and Belgium to learn about the variable compensation (VC) system currently in place. The qualitative data was first analyzed to determine if the system is globally standardized or locally adapted. Then, the data was analyzed by applying Hofstede’s four-dimensional model of national cultures. Lastly, the “Onion diagram” (Hofstede, 2001) was used to determine if corporate values are exhibited in observed practices. We now present our conclusions from each of these three sub-analyses to our overarching research question.

### **6.1 ‘Versions’ of decentralization: guidelines balanced by grandfather-principle**

The analysis of whether ManuComp’s VC system is globally standardized or locally adapted was conducted since the decentralized organizational structure *suggests* that we would expect to observe a certain degree of local autonomy of ManuComp’s subsidiaries. That analysis yielded a somewhat mixed picture of both aspects. The two key elements are the VC guidelines, which are loose by nature since they only provide the structural framework of the VC system, and the grandfather-principle, which requires managers to coordinate their decisions with their managers. In essence, we observed general guidelines that are in place to *guide*, not instruct, the subsidiaries and designed in a way to allow for contextual adaptations since the actual content of the VCs is decided upon locally, i.e. a mix of both standardization and local adaptation. The reasons for this are that ManuComp is continuing to grow and that



the nature of its global business requires a certain degree of coordination. This coordination must today be tighter than previously due to rapid development and adoption of modern IT systems since these have increased the transparency of information within ManuComp. Returning to the key values of the firm, we see that one reason for having the guidelines, which among other things set a higher limit on the VC for certain hierarchical roles, thus lies in the company's sincere willingness in aiming for 'fairness' permeating all of their processes. That is why they have combined the divisional self-regulation with the grandfather-principle – it yields a certain control over the local decisions. In short, this analysis showed that we have observed different 'versions' of decentralizations within the case company due to a mix of centralization and decentralization depending on context and level of analysis – it comes down to the control mechanisms complementing each other.

## **6.2 Theory on national cultures is an insufficient tool as it is not fully MECE<sup>13</sup>**

When applying Hofstede's (1980) theory on national cultures on our empirical data from Sweden, Germany and Belgium, we could only partially find tendencies that were in line with expectations from theory. These included power distance and uncertainty avoidance for Belgium. More importantly, however, a number of our observations were either in contrast to the theory, e.g. the division and extent of using hard and soft measures, or were beyond the scope of the theory, e.g. how the firm perceives the VC system and certain practical aspects of it. Therefore, we cannot conclude that ManuComp is either standardizing or fully adapting in accordance to Hofstede's theory. Instead, we observed more of a mix. Certain dimensions seemed to have been accommodated for in certain countries, whereas other aspects of the data suggest a more random approach from a Hofstede perspective. In line with previous research in this field (Van der Stede, 2003), our conclusion from this analysis is that we must also refer to theories on corporate culture to extend the analysis since Hofstede's theory leaves out important observations that we made.

Relating our results to the study by Jansen et al. (2009), who found much stronger indications of adjustments to the national cultures, it should be noted that an important aspect of this thesis has been the adoption of the MNC context. Essentially, this means that Jansen et al. (2009) were unable to separate out company specific characteristics that remain a part of ManuComp across geographies. Put differently, there are implicit aspects that tie together the different subsidiaries into ManuComp, unlike the American and Dutch car dealerships that were all independent and present only on the respective national markets. Within each of the two countries, Jansen et al. (2009) conclude that the incentive systems look alike, i.e. that they have been designed as per the predictions on American and Dutch preferences in Hofstede's model. However, when applying the MNC context, we observed that there is a mixture of local adaptation according to Hofstede, and a certain degree of global standardization. If this mixture is due to the global MNC setting of a specific company, the next question is how we can explain it. That is why we extended our analysis by referring to theories on corporate culture.

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<sup>13</sup> MECE stands for 'Mutually Exclusive, Collectively Exhaustive'.

### 6.3 A strong corporate culture enables implicit steering and management control

In line with previous empirical studies within our particular research field (Van der Stede, 2003), we used theories on corporate culture to further extend our analysis when the national culture construct proved to be insufficient to *fully* explain our results. Hence, we applied the “Onion diagram” (Hofstede, 2001) to evaluate if ManuComp can be characterized to have a strong corporate culture, with which we mean that observed practices are in accordance with, and reinforce, the firm’s values. A key revelation of this analysis lies in how MNCs with a strong corporate culture are given the choice of steering through either explicit or implicit measures. As per our analysis on the different ‘versions’ of decentralization, we found that our case company is exhibiting a combination of these forms of steering, with a stronger emphasis on implicitness. While the central VC guidelines provide the general structure for the system, and thus imply a form of direct steering, extensive decision-making power in regards to the VC content lies with the divisions, something that have implied variations on the detailed level, e.g. the exact targets and organizational level for evaluation. Nevertheless, we see very similar approaches to how these guidelines are implemented in terms of corporate standards, measurements and rewards. The reason for this lies in how the firm’s core values have been operationalized through the grandfather-principle, which reinforces the corporate culture by enabling the values of ManuComp to permeate all control processes. An essential aspect of this principle is its informality, meaning that it is not written down. However, since the point is not to use the grandfather-principle to achieve globally standardized process, but rather to maintain a certain degree of reasonableness, this informality makes sense. Hence, the principle is vital in ensuring that the employees ‘conform’ to the ManuComp practices because they respect the corporate culture and ‘the way things are done’. This explains why our interviewees are choosing the ManuComp way over their personal opinions, which includes finding the current system inefficient and suboptimal. The strength of the corporate culture is thus an explanation for (i) why ManuComp can be steered implicitly, and (ii) why we still observe such similar processes across the three examined countries despite ManuComp being a decentralized company.

A pertinent study to relate our results with is Van der Stede (2003), who found that (p. 279): “corporate-level effects predominantly drive variations in MCISs, which suggests that MCISs tend to be uniformly implemented within firms, rather than to reflect local business-unit conditions”. Since Van der Stede (2003) did not apply the single MNC context, his conclusion is restricted to merely identifying the existence of intra-corporate effects on a more general level, in particular that expatriates play a significant role as bearer of the corporate culture resulting in a convergence of the organizational culture of the subsidiary to that of the parent company. In this study, however, we have been able to dig deeper into the details and exemplify how key corporate values permeate control mechanisms, e.g. the grandfather-principle and the use of VC guidelines. That is the key to what we observe in ManuComp and our results can thus be seen as an extension of Van der Stede (2003) since we outline particular intra-corporate factors that come in to play in the specific case.

## **6.4 Implications: corporate culture can balance standardization and adaptation**

Summarizing this thesis, we can conclude that the design of the incentive system in our chosen Swedish decentralized MNC has been adapted to a certain extent across geographies. However, we observe quite similar processes in the three countries since these adjustments are more strongly linked to ManuComp's corporate culture, rather than the national cultures of its subsidiaries. What are then the implications of these findings going forward? From the perspective of top management, the results suggest that a strong corporate culture that is well grounded in clear values can permeate the management control processes and thereby yield desired employee behavior. From an employee perspective, the corresponding observations are a feeling of comfort in the corporate culture as it is grounded in fairness ('lagom'), which yields a general satisfaction with working for ManuComp, including work-life balance, the total incentive package and fellow colleagues. However, specifically for the VC system, the satisfaction is not 100 percent as our results suggest a request for an earlier arrival of the VCs and more adaptation to the personal preferences as this could increase motivation for a number of our interviewees. Our study thus implies that a mediating factor could be a higher employee involvement in the VC target setting. This would raise top management's awareness about the dissatisfaction over the late arrival of the VCs and highlight the need to prioritize this particular aspect of the system. Despite the increased employee involvement, the grandfather-principle would still ensure 'fairness' across the firm while the employees would be able to voice and implement their preferences within the guidelines. In short, our conclusions suggest that decentralized MNCs can steer their subsidiaries implicitly with the aid of a strong corporate culture as it can facilitate in finding a balance between global standardization and local adaptation. The need for detailed and formalized manuals, procedures and rules is thereby decreased.

## **6.5 Limitations with the current study and avenues for future research**

As we discussed extensively in the methodology chapter, a main problem with conducting a case study lies in the small ground from which to draw general conclusions. Moreover, since our study is based on qualitative data drawn from interviews, exact replication can be very challenging due to the fact that answers from the interviewees may change over time as a result of changed preferences, the approach of new interviewers or other factors. In regards to the replies from interviewees, the number of interviews to conduct is always a call of judgment in case studies since the researcher must decide that adding more interviews will not yield unique answers but rather repeat knowledge we already have (Baker & Edwards, 2012). In this thesis, we have conducted nearly 30 interviews, and we feel that all crucial and relevant aspects have been well covered. Additionally, as with all parts of conducting qualitative research we have had to make interpretations of the answers of the interviewees. However, that is why we have put in place a number of measures, such as several crosschecks and various data sources, to increase the objectivity and validity of our empirical data.

For future research, it would first be interesting to examine a different set of countries within ManuComp to verify that our results are globally applicable as per our analysis and conclusions. Secondly, it would be interesting to see if the same results would apply for another Swedish MNC since we have seen that the history of being a Swedish based MNC

has had an important effect on ManuComp. Additionally, future research could apply our single case methodology from a more international perspective, e.g. an MNC with HQ in Germany or Belgium. What effect would such an organizational context have on the results and conclusions? Lastly, due to scarce time resources, the scope of this thesis was limited to a qualitative approach. However, complementing the empirics with more quantitative data, collected for example through a survey, could perhaps add more insights, something that future researchers could consider when designing their studies. More specifically, adding the quantitative data could analyze the potential effect of external factors by quantifying specific environmental factors and plot the development of internal control systems.

## 7. References

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## 8. Appendix: supplementing data presentation

### Appendix 1: Conducted interviews<sup>14</sup>

Role	Country	Physical/Phone	Date
VP HQ	Sweden	Physical	2012/09/10
VP CC	Sweden	Physical	2012/09/10
VP HQ	Sweden	Physical	2012/10/01
GM CC	Sweden	Physical	2012/10/09
GM CC	Sweden	Physical	2012/10/10
President PC	Sweden	Phone	2012/10/10
HR Manager PC	Sweden	Phone	2012/10/10
GM CC	Germany	Phone	2012/10/15
BLM CC	Germany	Phone	2012/10/15
BLM CC	Germany	Phone	2012/10/15
BLM CC	Germany	Phone	2012/10/15
GM & President	Germany	Physical	2012/10/15
HR Manager CC	Germany	Physical	2012/10/16
HR Manager PC	Germany	Physical	2012/10/16
GM CC	Germany	Physical	2012/10/16
GM PC	Germany	Physical	2012/10/16
GM HR Bus Serv	Germany	Physical	2012/10/16
GM CC	Germany	Physical	2012/10/16
HR Manager PC	Sweden	Physical	2012/10/19
HR Manager CC	Sweden	Physical	2012/10/20
GM PC	Belgium	Phone	2012/10/22
VP Logistics CC	Belgium	Phone	2012/10/22
HR Professional PC	Belgium	Phone	2012/10/22
HR Manager CC	Germany	Phone	2012/10/23
GM CC	Belgium	Phone	2012/10/23
HR Manager CC	Belgium	Phone	2012/10/23
GM Bus Serv. Finance	Belgium	Phone	2012/10/23
VP Bus Serv Eng. & R&D	Belgium	Phone	2012/10/23
VP HQ	Sweden	Physical	2012/11/02
HR Remuneration	Belgium	Phone	2012/11/09

<sup>14</sup> It should be noted that the interview with the HR representative from ‘International benefits and remunerations’ was not added to the summary of Belgian interviews in Table 5 since this particular interview focused on learning more about the general VC system within ManuComp, we did not speak about the interviewee’s individual VC.

## Appendix 2: Aggregated analysis

AGGREGATED	Sweden	Germany	Belgium
Observations	7	12	7
<b>Corporate standards</b>			
Knowledge about guidelines	86%	78%	57%
Participation in own VC goals	71%	64%	33%
Involving subordinates in goal setting	100%	100%	100%
<b>Measurements</b>			
Avg. hard (% of VC)	61%	59%	51%
Hard interval	30-80%	40-80%	45-60%
Avg. soft (% of VC)	39%	41%	49%
Soft interval	20-70%	20-60%	40-55%
<b>Rewards</b>			
Group	0-30%	0-20%	0-30%
Business area	0%	20-60%	0%
Division	20-75%	20-60%	'Small portion' - 80%
Own entity	25-80%	20-100%	20% - 'Majority'
General	30-80%	n/a	n/a
Individual	20-70%	n/a	n/a
<b>Other</b>			
Willing to trade	71%	45%	0%
Hierarchy (majority view)	Flat	Flat	Flat

**Appendix 2:** Aggregated summary of the results from the three countries. The 'Corporate standard' variables plot the average values of the firms, where the average is based on the number of interviewees who have indicated a positive answer to the questions relating to knowledge about guidelines and if they are involved when their own VC targets are being set. 'Measurements' plots average values and the interval of the hard and soft measures respectively. 'Rewards' outlines the interval for each variable in the respective country. It should be noted that '0%' indicate that none of the interviewees had a measure based on this organizational level. When the interval starts with a '0', it means that only one individual had a value on this. All other intervals plot the lowest and highest indicated values, i.e. that at least two interviewees had measures based on this organizational level.