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Chinese digital talents and monetary rewards: A case study of justice perceptions in a Nordic multinational

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Introduction

Increasing uncertainties in the global context, including the COVID-19 pandemic, the deglobalization trend, and insufficient talent supply, have complicated the challenges for multinational corporations (MNCs) to manage talents in different geographical locations (Caligiuri et al., 2020; Chatterjee et al., 2014). A growing body of research has investigated the transfer of global TM activities within MNCs (e.g., Beamond et al., 2016; Sidani & Al Ariss, 2014), however, few empirical studies have examined how and why certain global TM practices (do not) work in subsidiary contexts (Thunnissen & Gallardo-Gallardo, 2017).

In this chapter, we applied the lens of perceived organizational justice to address the above phenomenon. Employees' justice perceptions have been found to relate to work outcomes such as turnover intentions (e.g., Nadiri & Tanova, 2010), job satisfaction (e.g., Yamazaki & Yoon, 2016), and work performance (e.g., Konovsky & Cropanzano, 1991). The meanings of justice and employees' expectations towards justice in the workplace vary in different socio-cultural contexts and are subject to influences resulting from changes in the global context, such as increased remote work (Ryan & Wessel, 2015).

This chapter, through a case study of a Chinese digital R&D center of a Nordic multinational, looks at the meanings that Chinese digital talents attach to justice in the workplace. It confronts local justice perceptions regarding the allocation of monetary rewards

with justice assumptions underlying global TM practices. Our study contributes to the discussion on the effectiveness of global TM practices by adding the individual-level justice perceptions that are crucial when “defining the very essence of individuals’ relationship to employers” (Cropanzano et al., 2007, p. 34). Individual-level perceptions are shaped by the local socio-cultural contexts, and they offer a different perspective than purely cultural or institutional factors on global TM practice. We respond to Vaiman et al.’s (2017) and Gallardo-Gallardo et al.’s (2020) call on studying the impact of contextual dynamics in TM.

In the following, we first review the literature on talent management and retention, rewards management, and perceived organizational justice. Second, we describe how we produced and analyzed the qualitative data. Third, we present the findings and position them in the existing body of research. We end with implications for managerial practice and limitations.

Literature Review

Talent management and retention

Talent management (TM) consists of “the activities and processes that involve the systematic attraction, identification, development, engagement, retention, and deployment of those talents which are of particular value to an organization to create strategic sustainable success” (Gallardo-Gallardo et al., 2020, p. 457). Engaging and retaining talents are key activities in talent management, and they remain a critical issue for many organizations. Voluntary employee turnover may lead to considerable replacement costs of lost talents, loss of related social capital, and reduced firm performance (e.g., Allen et al., 2010). Various strategies have been identified to enhance talent retention (for an overview, see Grotto et al., 2017).

MNCs need to engage and retain talents in different national contexts, which may be characterized by different cultural, social, economic, and institutional conditions (Chiang et al.,

2017). These contextual factors may significantly shape employees' values and perceptions in the workplace (e.g., Muethel et al., 2011) and influence how global talent retention practices work for local employees. This chapter focuses on rewards management practices, one of the important talent retention practices.

Rewards management

Rewards can help organizations shape their employees' behaviors in the direction that they want their employees to go (Adeoye et al., 2016), and they are often divided into financial and non-financial rewards (Armstrong & Murlis, 2007). However, an identical reward may motivate employees from distinct national contexts differently. For instance, Chiang & Birch (2012) found that financial rewards motivated Hong Kong employees more than non-financial rewards whereas Finnish employees attached great importance to non-financial rewards.

Our study is conducted in China, where materialistic values are very central in contemporary employment relationships (Cooke et al., 2014). Compensation is still one of the most important factors for Chinese employees to choose the employer (Lu, 2014). Our study chooses to focus on financial rewards, which include fixed rewards (e.g., salary and benefits) and variable rewards (e.g., performance-based incentives).

Pay-for-performance practice is a type of variable rewards used to retain high-performing individuals. Scholars have studied the applicability of pay-for-performance practice in emerging markets including China (Claus & Briscoe, 2009). Some studies found that Chinese managers tend to associate performance with personal characteristics such as loyalty and obedience and are more concerned with equality when allocating rewards (e.g., Giacobbe-Miller et al., 2003). Other studies have shown that Chinese employees' reactions to the pay-for-performance practice were positive (e.g., Du & Choi, 2010). Rynes et al. (2005)

suggested that mixed findings might be explained by the contextual factors that have not been emphasized in previous studies.

Research on employee turnover has indicated that pay level and pay satisfaction are relatively weak predictors of individual turnover decisions (e.g., Allen et al., 2010), whereas employees' justice perceptions regarding the pay exerted a significant impact on individual turnover intentions (e.g., Nadiri & Tanova, 2010). Our study specifically looks at how Chinese digital talents form their distributive justice perceptions regarding the allocation of financial rewards.

Perceived organizational justice

Perceived organizational justice refers to “a personal evaluation about the ethical and moral standing of managerial conduct”(Cropanzano et al., 2007, p. 35). It has been shown to help improve the employer-employee relationship (e.g., Colquitt et al., 2014), strengthen job performance (e.g., Rupp & Cropanzano, 2002), and foster organizational citizenship behaviors (e.g., Liden et al., 2003). Not surprisingly, academic studies have proposed that organizations should “build fairness into widely used managerial activities”, including hiring, performance appraisal, and rewards system (Cropanzano et al., 2007, p. 34).

Allocation of financial rewards is mostly linked with distributive justice. Distributive justice perceptions refer to the perceived fairness of organizational outcomes (e.g., compensation and promotion) that people receive (Adams, 1965). Employees may apply one of the following three rules when assessing the rewards they receive: equity (outcomes are distributed in proportion to contributions); equality (outcomes are distributed equally); and need (outcomes are distributed in accordance with the most urgency) (Cropanzano et al., 2007; Deutsch, 1985). These different rules may conflict with one another, and national culture may be an important factor that influences individuals' preferences (Silva & Caetano, 2016).

Much of the cross-cultural literature on distributive justice has focused on the high-level cultural dimensions such as collectivism-individualism; however, limited attention has been given to the specific contextual influences such as new societal conditions and specific organization and industry characteristics (e.g., Chen, 1995; Chiang & Birtch, 2005). Our study highlights the contexts that go beyond cultural elements when explaining why Chinese digital talents would view certain rewards distributions as (un)fair.

To conclude, while important contributions have been made in the global TM and organizational justice literature, a limited number of studies have investigated how contextual factors, including changes in the contexts, may shape individual-level justice perceptions and affect the effectiveness of global TM practices. This study aims to make a theoretical contribution by examining how individual-level justice perceptions in the local contexts may challenge the justice assumptions upon which global rewards management practices are built.

A single case study

We undertook a qualitative single case study to uncover how Chinese digital talents subjectively understood justice and made fairness judgments regarding rewards allocation. A single case study allowed us to explore in-depth the context which is critical for understanding the phenomenon (Stake, 1995). We use the pseudonym “MLcomp” to protect the identity of the company.

MLcomp is a service-oriented manufacturing MNC that operates in a traditional industry. The company has been undertaking digital transformation for several years and aims to build digital solutions and services to supplement its physical products for its customers. Digital competencies are crucial for MLcomp to achieve sustainable success in the future and MLcomp has established a digital R&D center to develop digital skills and competencies. Considering Gallardo-Gallardo et al.’s (2020) definition of TM and the case company’s

situation, digital talents in our chapter refer to individuals who possess and productively employ digital abilities, competencies, and skills (Dan et al., 2021). All employees in MLcomp's digital R&D centers, according to this definition, are regarded as digital talents.

Our research site is a digital R&D center that is located next to Shanghai, China. This R&D center is a part of the global R&D organization, and it is responsible for both supporting MLcomp's businesses in China and developing solutions for the global market. The Chinese market is strategically significant for the industry and the company, and it has been marked as one of the most important markets for service businesses. The Chinese digital R&D center plays a critical role in providing inputs of the Chinese market on global R&D strategies, and it is important for MLcomp to attract, motivate, and retain Chinese digital talents with both technical and English skills.

Data collection

To better understand the experiences of working in MLcomp's R&D centers in China, the first author spent five weeks on-site in China in Spring 2021 and conducted 22 semi-structured interviews in the digital R&D center in China and 9 interviews with HR-related roles from both China and corporate headquarters. Out of 22 interviews with Chinese digital talents, one was with the leader of digital R&D in China, eight were with line managers, and thirteen were with engineers.

The first author conducted interviews with Chinese employees in Chinese, and 29 interviews were recorded and 2 were documented through field notes. She kept daily memos and field notes, resulting in a total of 100 pages. These field experiences gave her a deeper understanding of MLcomp in China. The second author possesses practical experience from leadership and HR roles in an MNC and has worked in both European and Asian subsidiaries. She brought managerial perspectives to data analysis. Other data sources include the company

website, various public reports, academic research on MLcomp, and internal documents on their reward practices.

Data analysis

The first author transcribed verbatim and analyzed and made sense of the interview data with the second author. Our preliminary findings after two rounds of data analyses unveiled that MLcomp's digital talents showed negative emotions regarding their salaries and bonuses. Thus, we decided to engage with the organizational justice literature and explore Chinese digital talents' justice perceptions. The final round of analysis was guided by iterations between empirical materials and our close reading of organizational justice theory. Finally, we contrasted corporate assumptions with Chinese digital talents' justice perceptions regarding rewards allocation and adopted contextual explanation (Welch et al., 2011, 2022) to make sense of the difference between corporate assumptions and local perceptions. This approach takes the context as part of the explanation and "seeks to produce situated explanations" (Welch et al., 2022, p. 8).

Findings

Rewards management in the case company

MLcomp provided a range of monetary and non-monetary rewards to employees. The company employed global rewards management practices that were designed to be consistent across the company and be flexible to meet local needs. Certain aspects such as the salary structure and the bonus payment structure were defined at the global level, but the flexibility was also given to local operations. For example, local market data was used when defining reference salaries.

Table 1 summarizes examples of our case study results and compares the justice assumptions underlying global rewards management practice and local justice perceptions regarding the allocation of rewards.

Insert Table 1 about here

Local justice perceptions regarding salary

Local pay secrecy policy forbids MLcomp’s employees in China to disclose their salaries to others. Restricting employees’ ability to discuss their salaries with each other may reduce the fairness judgments employees make in the workplace and increase the market power of employers. In practice, this pay secrecy policy was seen as a ‘formality’, i.e., an official policy that was not followed in the current research context due to both fierce competition for digital talent and the cultural influence.

As the HR manager in MLcomp’s Chinese subsidiary noticed, employees were frequently approached by headhunters and thereby got updated on current market salaries. Also, even if pay has long been considered a taboo subject in many parts of the world, salary is a common topic among friends and relatives in China. Our interviewees used an old saying from China – *“There isn’t a wall in the world which has no hole”*, meaning that they can find out everything through this hole, i.e., know roughly their colleagues’ salaries.

Once Chinese employees gathered information about their colleagues’ salaries, they started to make comparisons with similar others (e.g., peers who had similar job responsibilities) and make fairness judgments. As described in Table 1, we identified three groups of referent others with whom Chinese digital talents in MLcomp made comparisons. We can see that

Chinese digital talents believed that criteria for determining salaries should be rather related to work efforts, such as job responsibilities, contributions to MLcomp, and skills and competencies. They did not think that the timing of joining the company or the experience from other companies or industries should lead to a big difference in the salaries between existing and new employees.

Confronting local justice perceptions with global justice assumptions. The criteria for salary and salary progression were instructed to be communicated by HR and managers clearly with MLcomp's employees. Nevertheless, some interviews indicated that the 'clear communication' of the reward approach did not reach local employees. This together with the pay secrecy policy may negatively impact Chinese digital talents' justice perceptions. Also, in the case of new hires who have competencies that are hard to find or join from non-traditional industries, it is possible for MLcomp to give a salary that is above the reference range that the company has defined but consistent with the market. This may have led to salary gaps between existing and new employees.

Besides annual salary reviews, MLcomp also adopted different ways to develop and retain incumbent employees, for example, through job rotation opportunities, training and development programs. These development opportunities were indeed important, but our interviewees in China still attached great importance to external and internal equity when considering whether to stay or leave the company.

Local justice perceptions regarding incentives

R&D employees in MLcomp were entitled to an annual bonus, which was based on both shared and individual performance targets. They set these targets and their respective criteria in the annual development discussions with their managers. For Chinese R&D employees, collective performance targets occupied a significant proportion of the overall targets.

From Table 1, we can see that interviewees perceived distributive injustice regarding the allocation of annual bonuses that were evaluated mainly based on shared targets. Interviewees felt that bonuses were more or less the same for everyone and thought that their efforts were not being compensated fairly when compared with low-performing colleagues. Also, interviewees did not think that it was fair for them to get a smaller bonus payment if they had made efforts to meet their performance targets and R&D centers located outside China had not.

It seems that Chinese digital talents preferred an equity approach to rewards allocation rather than an equality or a needs approach. This means that Chinese digital talents tended to judge a distribution as fair if what they got seemed to be proportional to what they contributed to their work. They wanted to get recognized and rewarded for their individual performance, and they did not think it was fair for them to work for collective performance targets that they had limited influence on.

Confronting local justice perceptions with global justice assumptions. The rewards framework of MLcomp is built on the idea of ‘pay-for-performance’, which is consistent with the equity approach to rewards allocation. However, the rewards approach seemed to be closer to the principle of equality in practice because organization- and team-level targets (for global R&D centers and global digital R&D) occupied a considerable proportion of total targets in determining the bonuses. This is different from how Chinese digital talents wanted to be rewarded and this is also why they perceived injustice regarding the allocation of bonuses.

Discussion and Conclusion

In this chapter, we have looked at how Chinese digital talents who worked for a Nordic MNC formed their justice perceptions regarding the allocation of monetary rewards and how their justice perceptions challenged the justice assumptions of global rewards management practices.

There are three main findings. First, we find that the local pay secrecy policy conflicted with Chinese employees' preferences. The mismatch between organizational pay secrecy policy and employee preferences may lead employees to perceive injustice because of information asymmetry between employers and employees (Smit & Montag-Smit, 2018).

Second, many injustice perceptions were related to internal inequity in compensation, especially the difference between newly hired employees and incumbent employees. Incumbent employees believed that their work contributions were at least equal or even more than those of newly hired employees, but they felt that they received unfair treatment from the company in terms of their salaries. Third, our findings show that MLcomp's 'pay-for-performance' practice did not meet Chinese digital talents' expectations on rewards allocation because the case company emphasized team- and corporate-level performance in the bonus target setting, leaving a small share for individual targets. Next, we will combine the Chinese contexts with the existing cross-cultural studies on distributive justice to explain the above findings.

Evolving changes in the Chinese society

Before China's economic reform and open-door policy in 1978, Chinese state-owned enterprises had adopted an egalitarian approach to rewards: everyone got a fixed compensation package regardless of their performance or individual abilities (Lu, 2014). Not surprisingly, in the earlier cross-cultural research on rewards allocation (e.g., Hui et al., 1991; Leung & Bond, 1984), it was found that Chinese subjects allocated rewards in a more egalitarian approach than did U.S. subjects. A common explanation for this finding was that the collectivist Chinese valued more interpersonal harmony while the individualist Americans were more concerned with task achievement when doing rewards allocation.

Nevertheless, later research (e.g., Chen, 1995; Chiang & Birtch, 2005) challenged the utility of the individualism-collectivism framework in explaining the reward allocation across countries as their findings suggested that collectivist Chinese employees preferred the equity fashion on their rewards allocation. These studies pointed out that there must be other factors than cultural differences which help explain reward allocation preferences. Here we argue that evolving changes in Chinese society may offer a possible explanation.

China's economic reform in the 1980s and 1990s facilitated the establishment of a 'socialist market economy', and China gradually changed from a centrally planned institutional environment to a market-based institutional environment (Jackson, 1992). This market reform created a competitive environment for all enterprises and aimed to increase their economic performance (Lu, 2014). Differential rewards allocation was allowed and used to achieve the economic goals, and Chinese people also gradually replaced their egalitarianism ideology with a philosophy that accepted unequal rewards (Whyte, 2010). Most Chinese believe that "inequality is a necessary stimulus for economic development, as unequal rewards motivate individuals to work hard" (Xie et al., 2012, p. 1071). This is consistent with Chen's (1995) arguments that even though collectivists Chinese value social harmony, this cultural value is compromised in the service of accomplishing salient productivity goals in the current research context.

Meanwhile, Chinese digital talents are relatively young, and a survey done by Maimai Data Academy showed that the average ages in China's Internet giants, including Tencent, and Alibaba, are from 27 to 33 years old (Sohu, 2021). Together with the above-mentioned economic reform and One Child policy (since 1980), Chinese millennials grew up with influences from the West and are more individualistic than the preceding generations (Moore, 2005). They highly value materialism and tend to associate their career success with financial achievements (Chen & Choi, 2008). This also indicates that Chinese digital talents would value

self-achievement much more (Sun & Wang, 2010) and would prefer to get rewards for their individual contribution.

Besides their preference for an equity approach on rewards allocation, Chinese digital talents' injustice perceptions related to internal inequity in compensation were remarkable. This is partly related to the popular digitalization trend in China. A report on the state of digital transformation in China showed that almost every Chinese company in the survey has been undertaking digital transformation (Prophet, 2019), resulting in fierce competition for digital talents. In addition, foreign companies aim for the ones who can speak English, which occupies roughly 20% of the digital talent pool in China¹. Foreign manufacturing companies operating in China are compelled to offer a constantly increasing salary package to hire local digital talents from the external labor market, and this will unavoidably lead to a considerable salary gap between newly hired employees and incumbent employees.

Internal inequity may cause stronger injustice perceptions among Chinese digital talents than among digital talents in high welfare states. For example, Nordic countries value social harmony so that their countries built the tax system in a way that taxes richer people more and redistributes the wealth to those most in need. (Andersen et al., 2007). This leads to the fact that the difference in the after-tax salaries among colleagues will not be that big. Nevertheless, China has increasingly emphasized economic goals in the past several decades and other issues such as income equality have been neglected. According to World Bank estimates of the Gini coefficient², China is among the most unequal major global economies. This implies that people may get very different after-tax salaries in China, which may enhance digital talents' injustice perceptions.

¹ This information is gathered by local HR of MLcomp.

² It is an economic measure by the World Bank. It shows the level of income inequality in a country. <https://data.worldbank.org/indicator/SI.POV.GINI>.

Implications for Research and Practice

Our research contributes to global TM literature by integrating the lens of perceived organizational justice into TM. It demonstrates that while global TM practices are designed to treat employees fairly across the company, local justice perceptions may differ from the corporate view and may challenge the effectiveness of global TM practices. Meanwhile, we address the existing literature gap on contextualized TM research (Gallardo-Gallardo et al., 2020) by showing that evolving changes in the Chinese society may shape Chinese digital talents' justice perceptions, which may lead to reduced effectiveness of global TM practices in certain contexts. Furthermore, our research contributes to the cross-cultural research on distributive justice by showing that justice perceptions are shaped by more contextual factors than purely cultural factors (Silva & Caetano, 2016). Influenced by local cultural, institutional, and socio-economic contexts, Chinese digital talents preferred a pay for individual performance approach to rewards allocation even though they share collectivistic cultural values. This is also aligned with previous research (Chang & Hahn, 2006; Du & Choi, 2010).

Our study also has several managerial implications. First, MNCs should consider contextual differences that shape individual-level justice perceptions when designing and implementing global TM practices. In today's world with constant socio-political and socio-economic changes, it is also vital to regularly review and update the assumptions underlying global TM practices. Second, it is useful to reflect what global and local actors, including HR experts and line managers, could do to ensure that the approach to rewards is communicated clearly with local employees. Transparency in rewards practices can enhance individual-level justice perceptions. Third, internal inequity is a complicated issue and sometimes unavoidable due to the external competition for scarce talents. It is useful for MNCs from traditional industries to review their talent sourcing strategies. It may be possible to fill some capability gaps with existing employees assuming that adequate development programs are in place.

Limitations

Our study has several limitations, which also offer future research opportunities. Our study examined only one global TM practice – rewards management, whereas future research could study a wider range of global TM practices to see whether they work in local contexts. Meanwhile, this study looked at Chinese digital talents' distributive justice perceptions, whereas future studies could investigate their procedural and distributive justice perceptions, which may offer valuable insights. Furthermore, this study was conducted in one context, China, and future studies could be conducted in other emerging and developed economies to see whether contexts make a difference in the effectiveness of global TM practices.

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	Justice assumptions underlying global rewards management practices	Local justice perceptions regarding allocation of monetary rewards
Salary	<ul style="list-style-type: none"> • MLcomp aimed for pay equity through the alignment of salaries with a number of factors that most employers associate with the value an individual brings to the role (e.g., performance, experience, qualification, and job scope). • The salary principles and drivers of salary progression were supposed to be transparent and be communicated clearly with employees. • Salary reviews were conducted annually. Base salaries were reviewed in reference to external market data that reflects the industry, geographic location, job categories, and grade. 	<p>Referent others when making fairness judgements</p> <p>1) Co-workers who have similar job responsibilities but were hired recently</p> <p><i>“Newly hired employees earned a much higher salary than incumbent employees did even though they have the same position..... It’s definitely not fair and it was obvious to everyone. I think there is nothing to cover here..... Once this information is distributed, employees would become disheartened.”</i></p> <p><i>“The salary should be reasonable and fair. It would be fine if you do not know that others who are doing the same thing earn much more than you. But there isn’t a wall in the world which has no hole, and you will have a knot in your heart if you know about it.”</i></p> <p>2) Co-workers who have a similar background (e.g., educational background and work experience) but left MLcomp and came back after a while</p> <p><i>“[In MLcomp] we have a consensus that we need to change our companies if we want higher salaries. However, this does not benefit people who have ideas as changing companies frequently does not allow you to take a longer time to deeply focus on something. People who do take the time to implement their ideas in this company seem not to get fair treatment.”</i></p> <p>3) Co-workers who joined MLcomp from other industries such as ICT</p> <p><i>“My only and final comment is still about compensation. Because of external market competition, newly hired employees who come from other industries may earn a much higher salary than incumbent employees who have been working in the company for a long time. This is not fair for incumbent employees.”</i></p> <p><i>“[MLcomp] offers much higher salary packages to employees from other industries, but these employees may not have better capabilities or contribute more than we do.”</i></p>
Bonus	<ul style="list-style-type: none"> • MLcomp’s reward framework focused on ‘pay-for-performance’, which means that additional rewards given to employees are based on both individual and shared performance targets. • The company-wide target is to ensure employees’ engagement and alignment to the company strategy, and the team-level targets (for global R&D centers and global digital R&D) are meant to encourage collaboration across countries, emphasizing that R&D is a global team. • The higher the employee’s position was on the organizational ladder, the bigger share of their bonus was based on collective objectives. 	<p>Referent others when making fairness judgements</p> <p>1) Co-workers who achieved lower performances</p> <p><i>“Our performance management is like ‘eating from one big pot’³ ...Around 80% to 90% of bonus criteria are related to the whole corporation and the whole (R&D) unit. Whether I did a good job or did a bad job does not matter.”</i></p> <p><i>“Individual contributions have very limited influence on bonuses, and it does not motivate employees to perform better.”</i></p> <p><i>“No one wants to be active under this rewards system. Nothing happened if I didn’t perform well or if I performed very well.”</i></p> <p>2) Other R&D centers that did not meet their performance targets</p> <p><i>“Most of the assessment criteria are not specific to China R&D and our final results will not meet our expectations due to other low-performing R&D centers in other countries. This is not fair to us.”</i></p>

Table 1. Local justice perceptions and global justice assumptions regarding allocation of rewards

³ This refers to an egalitarian approach to employees’ pays in Chinese state-owned enterprises in the past. Everyone got a fixed salary regardless of their performance or individuals’ ability.