

## **Beyond managerial talent: ‘key group’ identification and differential compensation practices in multinational companies**

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### **Abstract**

With the maturation of strategic human resource management scholarship there appears to be a greater call to move from monolithic workforce management to a more strategic and differentiated emphasis on employees with the greatest capacity to enhance competitive advantage. Scholarship has been somewhat narrow as the spotlight has typically fallen on managerial elites or utilising job position as a proxy for strategic employee groups rather than examining whether organisations formally identify such groupings and differentially manage them. Using survey evidence from 260 multinational companies (MNCs), this paper explores the extent to which key groups of employees, i.e. a grouping deemed critical to a firm’s organisational learning and core competence, are formally recognised and whether they are subject to differential reward management practices. The results demonstrate that just in excess of half of these MNCs identify a key group. We also found considerable differentiation in the rewards architecture between these key groups and other staff categories. These results indicate that there is a need for wider application of resource based theory beyond managerial and leadership elites.

### **Keywords**

Key group, multinational company, rewards, strategic HRM, talent management.

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### **Introduction**

Drawing on resource-based theory (RBT), the strategic human resource management (HRM) literature proposes that there is much benefit to be derived from a preferential focus on employees with the greatest capacity to enhance firm performance and competitive advantage. Empirical support regarding the use of a differentiated approach relates largely to managerial and leadership elites compared to the rest of the workforce (McDonnell, Lamare, Gunnigle and Lavelle, 2010). In effect, the scholarly focus has been primarily on identifying, and preferentially developing and rewarding, existing, and potential future, leaders and senior managers. In recent times, the emergence of the talent management literature has further embellished the focus on pivotal staff (e.g. Collings & Mellahi, 2009) and argues for a disproportionate investment in such employees (Boudreau & Ramstad, 2005; Becker, Huselid & Beatty, 2009). This literature has to a large degree being precipitated by concerns over talent shortages across the developed and developing world (cf. Schuler, Jackson & Tarique, 2011).

It is argued here that insufficient attention has been dedicated to employee categories, beyond the managerial and leadership elite, with the potential to significantly contribute to competitive advantage and the extent to which differentiated HR practices are deployed. A related concern, first raised by Becker and Huselid (2006), is that the literature currently emphasizes the strategic advantage in focusing on individual employees deemed to have senior management potential, without giving sufficient consideration to the need to develop and invest in cohorts of employees intrinsically involved in roles related to core competencies within an organization. In other words, disproportionate emphasis has focused on the value of individual employees to firms without commensurate consideration afforded to the contributions of key cohorts, or groups, of employees. Yanadori and Marler (2006) focused on the compensation strategies of strategic employee groups but

their approach was based on the premise that research and development (R&D) jobs represented a key group without empirically testing whether the organisation formally identified such a category of staff in this light. While R&D jobs may very well represent strategic employee groups we posit that other critical groups may also exist, especially across organisations operating in different sectors. Further, what may ostensibly appear to be a key group of employees based on their job level or position may not necessarily mean that organisations formally identify them as critical to the firm's core competence.

The paper draws on data collected from a large-scale, representative survey of HRM practices employed by multinational companies (MNCs) to advance understanding of the extent to which key groups of employees are formally recognised and how they are rewarded. For the purpose of this study the key group were defined as employees that may be identified as critical to a firm's organisational learning and core competence. Such groups may refer to research staff, product designers, major account handlers and so forth. Participants were then able to self-select if they formally recognised such a grouping. The objectives of this paper are twofold. First, we establish the extent to which MNCs deliberately recognise strategic employee groups that are considered vital to competitive advantage, thereby helping to counterbalance the evident focus to date on managerial and leadership development and succession. Second, we systematically investigate whether these key groups are subject to differentiated rewards practices vis-à-vis managers and the largest occupational group (i.e. largest non-managerial occupational group). The primary focus here is on whether there is differentiation in rewards management, often viewed as motivation enhancing HR practices (Kaifeng, Lepak, Jia & Baer, 2012; Lepak, Liao, Chung & Harden, 2006). Consequently, the paper engages with Becker and Huselid's (2006) and Lepak and Snell's (1999, 2002) contention that an organization's workforce should not be treated as one large monolith but rather as comprising groups or categories of staff who vary in terms of their putative strategic value and for whom differing HR approaches may be utilized (also see Boxall & Purcell, 2003).

We begin by reviewing relevant literature to clarify both the focus and contribution of our paper. We then describe the methodology employed, the constructs used and the statistical analysis undertaken. Following this, we present our findings. Finally, we discuss the results taking cognisance of the extant literature and outline some pertinent conclusions.

### **1. Key employees groups – the elusive “X factor” for organisations?**

The underlying theoretical framework on which this paper is grounded is RBT. More specifically, we draw on research that applies RBT to HRM through the ideas of differentiated HR architectures for different employee categories (cf. Tsui, Pearce, Porter, & Tripoli, 1997; Lepak and Snell, 1999, 2002). The talent management literature provides further support around organizations appropriating their resources more strategically in terms of important employees and roles (Boudreau & Ramstad, 2005; Collings & Mellahi, 2009; McDonnell, 2011).

RBT contends that sustainable competitive advantage can be achieved through the development of internal resources that are valuable, rare and difficult to imitate (Barney, 1991, 1995, 2001). Such resources may include, “all of financial, physical, human, and organizational assets used by a firm to develop, manufacture, and deliver products or services to its customers” (Barney, 1995, p. 50). High quality human capital is often considered to satisfy the requirements set down by RBT (Takeuchi, Lepak, Wang, & Takeuchi, 2007) with the inimitability of resources particularly important in arguing human capital can lead to sustainable competitive advantage. Employees are widely seen as a key means through which organizations ultimately develop capacity and skills, formal and tacit knowledge, and build relationships and networks. In particular, knowledge-based resources are seen as more idiosyncratic to the firm in which they reside (Barney, 1991; Peteraf, 1993).

Under RBT, managerial and leadership elites are unsurprisingly typically viewed as the most significant of human capital sources due to the predominantly tacit nature of their skills and the impact they have on setting and realising the corporate objectives (Thompson & Heron, 2005). Consequently, by definition, strong managerial and leadership capability will be difficult to replicate.

It is against this backdrop, along with supply/demand concerns, that talent management has emerged as a prominent topic in the practitioner and academic lexicon.

In this paper we argue for greater consideration of high value human capital sources beyond just the managerial and leadership elites. The primary value of employees derives from their capacity to contribute to the achievement of business strategies and to take advantage of the opportunities, and reduce the threats that arise in the marketplace (Barney, 1991; González & Tacorante, 2004). “The uniqueness of human capital, or firm specificity, implies skills or knowledge derived from idiosyncratic learning processes, which makes their abundance in the market improbable” (González & Tacorante, 2004, p. 58). While the identification and effective management of ‘star’ or ‘pivotal’ individuals has received extensive attention (e.g. Groysberg, 2010), much less focus has fallen on the extent to which organisations diagnose key or strategic groups of employees. We are interested here in whether groupings of key staff, beyond managers/leaders, who possess core competencies or knowledge considered strategically important to business success (Liao & Chung, 2004), are identified and subject to differentiated management practices. Such groups may often encompass employees operating in non-managerial roles but who nevertheless substantially impact on competitive advantage through technical, product, process, customer or other knowledge and core competences (Thompson & Heron, 2005).

The extent to which organizations identify such groupings is to our knowledge unknown. Much of the scholarship on differentiated employee categories has been on core versus peripheral staff or managerial versus non-managerial workers (e.g. Jackson, Schuler, & Rivero, 1989). Lepak and Snell’s (2002) study examined differentiated architectures where the primary unit of analysis was the mode of employment (i.e. contract works, alliances/partnerships, knowledge based employment and job based employment). Further and as previously highlighted, others (e.g. Yanadori & Marler, 2006; Yanadori & Kang, 2011) self-determined strategic employee group according to individuals being in R&D jobs or not. Thus, they did not delineate if the organisation actually identified these as a key

group or whether other critical groupings of employees existed. Furthermore, such studies were focused on only one industry, a limitation addressed here. As a key tenet of RBT is the link between corporate strategy and an organization's internal resources, there is unlikely to be strong commonality in the makeup of who these key groups are from organization to organization. Specific competencies may be valuable in one organization but peripheral in another. In some firms major account handlers may possess considerable value but these may be ancillary staff in other organizations where perhaps product developers may be more critical. Therefore, our first research question asks: *to what extent do MNCs formally identify key or strategic employee groupings?*

Stiles and Kulvisaechana (2003) usefully note that identifying key employees does not bring competitive advantage alone but that social and organizational capital must also exist. In other words, employees themselves are not just a source of competitive advantage. They can be such a source when other factors (e.g. relationships and organizational capital) are taken into account. Consequently, it is important that organizations have effective management systems and methods of working in place, as well as practices to develop and reward key staff (Hutchinson & Purcell, 2003). In so doing, staff may be enabled to make the contribution desired to facilitate the achievement of competitive advantage. As a result, one might, *de facto*, expect a differentiated and more sophisticated approach in the management of a key group compared to the largest occupational group. The ultimate logic of this line of inquiry is that those employees that constitute a key group would be expected to receive the greatest attention and investment and an enhanced rewards package, relative to other non-managerial employees. There may be greater similarity to managers but it could be argued that some variation may be expected in approach.

This argumentation fits neatly with RBT, which maintains that the most critical employees must be retained and their knowledge and skills absorbed within the organization through the development of organizational systems and routines (Kamoche & Mueller, 1995; Lepak & Snell, 1999, 2002). The provision and utilisation of appropriate systems and practices is vital if the knowledge and skills of

key employees are to be leveraged appropriately (Barney, 1995; Stiles & Kulvisaechana, 2003). Consequently, coherent and integrated organizational systems and practices must support staff to provide added value to the organization (Boxall, 1996). Snell (2005) maintained that the most costly 'best HR practices' will be more commonly deployed among highly valued groups of employees, with a cost-control and more 'minimalist' HR approach used for other employee categories (e.g. low or unskilled categories). This is the essence of RBT, HR architecture and talent management literatures, which argue that organizations should employ differentiated reward and broader HR systems and practices depending on the anticipated strategic contribution employees make to the organization (Becker et al., 2009; Boxall & Purcell, 2003; Delery & Shaw, 2001; Lepak & Snell, 1999; 2002; Tsui et al., 1997; Yanadori and Marler, 2006). Yet, there is little consensus as to what differentiated HR architectures or systems look like, or the practices they should incorporate (Boselie, Dietz, & Boon, 2005). Yanadori and Kang (2011: 237) suggest that "there is only limited empirical evidence indicating whether or not firms really differentiate across employee groups when designing HRM practices".

The focus in this paper is on differentiated approaches to reward management. Ideally, the focus would have been more holistic to incorporate aspects of recruitment, selection and development but the nature of the study (see methodology section) prevented this. While a somewhat narrow view of differentiated practices are used, rewards or compensation systems are long established as promoting desirable worker behaviour when appropriately designed and in keeping with business strategy (e.g. Milkovich and Newman, 2005). Consequently, key employee groups can be expected to receive 'enhanced' rewards, in an explicit effort to internalize them into the organization, increase their commitment and encourage superior performance (Lepak & Snell, 2002; Becker et al., 2009). Yanadori and Marler (2006) found that high technology firms in the US differentiate their compensation systems between R&D staff and other employees. Yet Yanadori and Kang (2011) surmise that overall much of the compensation and rewards literature is implicit on the extent to

which organisations actually adopt discerned approaches by employee groups. In order to advance understanding beyond the existence of key groups and provide more explicit evidence on differentiated rewards systems our second research question is: *do MNCs employ a differentiated approach to rewards management according to the different employee groupings?*

## **2. Methodological approach**

### *3.1 Research design*

This paper draws on data from the first large-scale, representative survey of HRM practices in MNCs (foreign and indigenous owned) operating in Ireland. In so doing, the study addresses the limitations of existing studies which too often lack comprehensiveness by failing to accurately capture the full population of MNCs in countries (see McDonnell, Lavelle, Gunnigle & Collings, 2007; Collinson & Rugman, 2010; Edwards, Marginson & Ferner, 2013). In focusing on MNCs, Ireland is a useful context for such research due to its classification as one of the world's most globalized (Kearney, 2002; KOF, 2010) and MNC-dependent economies (Gunnigle, Collings, & Morley, 2005). While there has been much discourse on Ireland's corporate taxation rate, there are a range of reasons beyond this as to why foreign firms locate there, for example, the highly skilled workforce and location within the EU and a generally 'business friendly' institutional environment (Gunnigle and McGuire, 2001). Despite experiencing a particularly severe economic recession, the country was recently ranked as the world's second most economically globalised country (KOF, 2010), the fifteenth most competitive world economy (IMD, 2014) and has experience strong inward foreign investment flows despite the global financial crisis

The first stage of the study involved the identification of an accurate population of MNCs which led to 563 MNCs (491 foreign and 72 Irish-owned). Indigenous-owned MNCs were defined as all wholly or majority Irish owned organizations with 500 or more employees worldwide and at least 100 employed abroad. Foreign-owned MNCs were defined as all wholly or majority foreign-owned organizations operating in Ireland, with 500 or more employees worldwide and 100 or more

employed in their Irish operations (A detailed exposition of the methodological process followed can be found in McDonnell et al., 2007). These definitions were based on that used by the European Works Council Directive (94/45/EC) but we reduced the employment criteria from 1,000 worldwide to 500 due to not wanting to be over-limiting in excluding moderately sized MNCs. A stratified, random sample according to country of ownership, sector and employment size was then undertaken providing us with a total valid sample of 414 companies. US firms accounted for the predominant number of MNCs in the population and they largely made up the difference between the sample selected and the total population. Consequently, not all US MNCs were selected as it would have meant they were over sampled.

The second stage of the project was to conduct the data collection. This took the form of a survey instrument that was administered through a face-to-face interview with the most senior HR practitioner, able to answer for all of the Irish operations. The data collection process commenced with each target respondent being sent a letter informing them of the study's aims and benefits etc. along with a letter of support from the Chartered Institute of Personnel and Development. Following this, the research team began phoning each target respondent with the aim of obtaining their participation by way of an interview. Each interview took between 40 and 60 minutes and consisted primarily of dichotomous and scale response questions with a very small number of open questions. The decision to administer the survey via interview as opposed to other forms (e.g. postal/online) was due to two main reasons. Firstly, the interview approach appears to be associated with higher response rates than other administration methods (Baruch & Holtom, 2008). Secondly, interviews have been lauded for their ability to reduce the amount of missing data (McKnight, McKnight, Sidani, & Figueredo, 2007). The data collection phase resulted in a total of 260 MNCs participating (213 foreign and 47 indigenous MNCs), an overall response rate of 63%. We checked for non-response bias by analysing the participant firms against two criteria (country of origin and sector) collated from the population development stage. These tests found that respondents were aligned

closely with the MNC population and we are confident non-response bias is not an issue. Table 1 highlights the key characteristics of the respondent MNCs.

*Insert Table 1 here*

### 3.2 Measures

This paper explores the extent to which MNCs formally identify a critical group of non-managerial employees (called the “key group”), and whether there is a differentiated rewards approach between the key group, managerial group and largest occupational group. In each interview respondents were initially provided with explanations of these employee categories.

- *Managers* - employees who primarily manage the organisation, or a department, subdivision, function, or component of the organisation and whose main tasks consist of the direction and coordination of the functioning of the organisation. In other words managers refer to those above the level of first-line supervision.
- *Largest Occupational Group* - the largest non-managerial occupational group among the employees in the ‘headcount’ in Ireland. For example, in a manufacturing business it might be semi-skilled operators, and in an insurance company it might be call centre staff.
- *The Key Group* – those employees whom you might identify as critical to your firm’s organisational learning and core competence. These might be research staff, product designers, major account handlers, developers of new markets, etc. We do not want you to think of a sub group of management.

They were then asked to indicate the number of managers in the Irish operations before being asked to state the name and work undertaken by the largest occupational group and the number employed in the Irish operations. Respondents were then asked to report whether they recognised a key group in the Irish operations. If they answered, ‘yes – more than one group’, they were asked to focus on the group that are most unique in the skills and capabilities that they possess which may be difficult to obtain on the external labour market, were the largest group or both.

In respect to the HR practices analyzed, the focus was on rewards management. These practices represent an area where one might expect to find differences between employees based on their strategic value of the organization. For example, financial participation schemes (e.g. profit sharing) are likely to be used to assist with in the attraction and retention of talent and encourage employee commitment (D'Art & Turner, 2004). Rewards systems represent a cornerstone of HR strategy (e.g. Boyd & Salamin, 2001).

The first measure asks about the pay policy of the MNC with regard to where it aims to be (top quartile, 2<sup>nd</sup> quartile, median/midpoint, below median/midpoint) in relation to pay levels and market comparators for our three employee pools. Second, we asked about whether *approved employee share ownership schemes* (AESOS), *profit sharing* and *share options* were offered to the key group, managers and largest occupational group. AESOS refers to where the organization establishes a trust which acquires shares on behalf of employees and provides employees with part ownership of the company. Profit sharing refers to rewards given to employees in addition to normal salary and bonuses which are dependent on the levels of profit in the business. Share options are where employees are given the option of buying company shares, often at a reduced rate. Third, we asked whether any of the employee pools received variable pay. Variable pay was defined as including, “merit pay, performance related pay, performance related bonuses or payment by results”. All questions measured the actual situation in the organization rather than measuring the idea situation or practice intentions. A sample of some of the questions used can be found in the appendix.

### 3.3 Statistical analysis

We utilize frequency and crosstab analysis in the first part of the results section. Following this we use  $\chi^2$  tests to compare the extent to which the key group statistically differs from the largest occupational group and managers in terms of our five measures of reward practices.  $\chi^2$  tests are particularly useful in that they assess the extent to which differences in categorical variables are statistically meaningful. We also include t-tests to measure whether differences occurred in the

average number of reward practices made available to workers. Finally, we incorporate logistic regressions to test differentiation in individual practice availability across sectors. This allows for a comparison of the extent to which our measures vary across the key group, largest occupational group, and managers depending on whether the firm belongs to traditional manufacturing, high-tech manufacturing, finance/business, retail/distribution/hotel/catering, or other sectors. Traditional manufacturing industry is used as the reference point throughout our regression analysis and we control for the company's country of origin and worldwide employment size in all models.

### **3. Results**

#### 4.1 Descriptive Analysis: The Presence of Key Groups

The study showed that just over half (52%) of all MNCs identified a key group of non-managerial employees (see Table 1). No significant differences were found between whether the MNC was indigenous- or foreign-owned (52% versus 53% respectively). Of these, almost 32% recognized more than one group. In such cases, we asked respondents to select the group that was most unique in that they possess skills or capabilities that are difficult to obtain on the labour market. If they could not differentiate on this basis they were then asked to select the largest group. Some 82% of those that initially identified more than one key group were able to select one group based on having the most unique skills and capabilities, 13% selected the group based on this but also noted that they were the largest group, the remaining 5% made their selection based on being the largest group.

We categorized the majority of key groups (64.4%) as technical staff which encompasses research and development specialists, chemists, engineers, quality technicians and product designers. Key sales employees (9.9%) and operational and support staff (8.3%) encompassed the other main categories identified. Invariably the key group was relatively small with almost seven in ten (66.7%) MNCs reporting that they encompassed less than 50 employees.

#### 4.2 Statistical Analysis: Differentiation by Employee Groups

Table 2 highlights the frequency of use for each of the reward management practices among our three groups of employees. Differences are evident on a number of practices. The key group were the most likely to be subject of a deliberate policy which seeks to provide pay levels in the top (30.7%) and second (29.1%) quartiles of pay relative to market comparators. The largest occupational group were most likely to be paid at the median or midpoint level as demonstrated by the response from 59.6% of all MNCs. We found that the largest occupational group were the least likely to benefit from any of the three financial participation schemes. The key group were slightly more likely than managers to be offered AESOS (35% versus 32%) and profit sharing (35% versus 34%). On the other hand, managers were more likely to be offered share options (49% for managers versus 40% for key group). Differences in the use of performance related pay between the key group and managers were limited (86% versus 91% respectively). However, the key group were considerably more likely to have performance related pay vis-à-vis the largest occupational group.

*Insert Table 2 here*

Table 3 provides the results of two-way contingency tables of differentiation in individual portions of a firm's reward management architecture. These tables compare the key group against the largest occupational group and also against managers on our five compensation practice measures. We use Pearson's  $\chi^2$  tests (supplemented with Fisher's exact tests, though these are not reported within the table) to assess the extent to which the proportions found within each contingency table are independent. A statistically significant  $\chi^2$  test would indicate the presence of differentiation across employee group pairings.

*Insert Table 3 here*

Statistically significant differences by employee group emerged when looking at the practice of rewarding workers with top quartile pay ( $\chi^2=45.321$  when compared to the key group with the largest occupational group,  $p<.01$ ;  $\chi^2=54.339$  and the key group with managers,  $p<.01$ ). Where firms recognize a key group, our results indicate differentiation between the key group and the largest

occupational group in 48.7% of the cases. That is to say, when the key group was awarded top quartile pay, in almost half of these cases the largest occupational did not also receive this reward practice. Further, in cases where the key group was not given pay in the top quartile, firms very rarely (only 2.3% of the time) chose to provide top quartile pay to the largest occupational group instead. The key group also enjoyed differentiation when compared against managers on this measure. In cases where the key group was awarded pay in the top quartile, this practice was not also provided for managers 35.9% of the time. On the other hand, when the key group was not granted high pay, managers rarely (in only 4.5% of the cases) received it instead. Overall, it was more often the case that the key group received top-quartile pay when others did not than the reverse (i.e., other groups receiving this reward but not the key group).

Smaller, though still significant variation was found in terms of AESOS for each group ( $\chi^2=121.367$  when comparing the key group with the largest occupational group,  $p<.01$ ;  $\chi^2=121.539$  when comparing the key group with managers,  $p<.01$ ). In most cases, when the key group was given an opportunity for AESOS, so too were the largest occupational group and managers. By equal measure, whenever the key group was not included in AESOS possibilities, it was rare for any other employee groups to be offered them. Similar results were found for profit sharing ( $\chi^2=109.035$  when comparing the key group with the largest occupational group,  $p<.01$ ;  $\chi^2=95.571$  when comparing the key group with managers,  $p<.01$ ). In 7.3% of cases the key group were treated differently from the largest occupational group in terms of profit sharing plans – i.e., the key group was given profit sharing but the largest occupational group was not. Differentiation for profit sharing between the key group and managers was also found in 7.5% of the cases; the key group was not offered this option but managers were.

Differentiation also occurred across employee groups when considering the availability of share options ( $\chi^2=63.156$  when comparing the key group with the largest occupational group,  $p<.01$ ;  $\chi^2=61.472$  when comparing the key group with managers,  $p<.01$ ). In 38% of cases where firms

offered this provision to their key group, they did not offer a similar option to the largest occupational group. Equally, when this option was unavailable to the key group, it was also unavailable to the largest occupational group in virtually every firm (that is, no firm offered share options to the largest occupational group but not the key group). Differentiation also occurred between the key group and managers. In nearly a quarter of cases, managers were provided with share options when the key group was not. In only 6% of cases were the key group given this option without it also being available to managers. On the whole, it was more often the case that key groups received share options when the largest occupational group did not, but it was not commonly the case that the key group received this reward practice without managers also enjoying it as well.

We discovered considerable differentiation with respect to variable pay ( $\chi^2=16.586$  when comparing the key group with the largest occupational group,  $p<.01$ ;  $\chi^2=31.060$  when comparing the key group with managers,  $p<.01$ ). In 22.6% of cases, when the key group was given performance related pay, the largest occupational group received no variable pay. However, when the key group did not receive variable pay, this pay scheme was instead provided to the largest occupational group in 31.6% of cases. Equally, the key group essentially never received performance-based pay without managers also receiving it; yet, in cases where the key group did not receive variable pay, the scheme was still provided to managers 68.4% of the time. These results indicate that it was more often the case that the largest occupational group and managers received variable pay schemes without the key group also receiving these schemes than the reverse (i.e., the key group receiving variable pay while other groups did not).

Moving beyond individual reward management practice differentiation, we considered whether firms offered higher numbers of aggregate practices to the different groups of employees. We counted the total number of practices employed by each firm, which could range from zero to five. Table 4 provides results for the independent samples t-test analysis of differentiation in the mean number of reward management practices at each group. The results indicate differentiation between the key

group and the largest occupational group, with the key group given a greater aggregate number of practices, at 2.2 out of a possible 5 reward practices, compared against only 1.7 for the largest occupational group ( $p < .05$ ). Conversely, a statistically identical number of practices were made available when comparing the key group with managers.

*Insert Table 4 here*

We also explored the extent to which a firm's industry shapes the extent to which our measures of reward management practices were offered to the key group, largest occupational group, and managers (Table 5). We found some variation across industries in the extent to which firms offer top-quartile pay to their key groups. Finance/business companies were over six times more likely ( $p < .05$ ) to offer this practice to their key workers than are traditional manufacturing companies. A similar result is found among "other" companies ( $p < .10$ ). This variation was exclusive to the key group – no differentiation by industry occurred in terms of top-quartile pay for the largest occupational group or for managers.

In terms of share ownership, we found no evidence of industry differences for the key group or for the largest occupational group. However, managers from high-tech manufacturing firms were more likely to receive this practice than managers from traditional manufacturing companies ( $p < .10$ ). Regarding profit sharing, there was no evidence of differentiation across industries and employee groupings. For share options, there was a small amount of differentiation. Within the key group, finance/business firms were three times more likely ( $p < .10$ ) to provide share options than traditional manufacturing companies. There was no difference by industry in term of share options for the largest occupational group or managers.

Looking at variable pay, we found some differentiation by. Among the key group, those in the "other" category of industry were over nine times more likely ( $p < .10$ ) to offer variable pay than traditional manufacturing companies. Conversely, within the largest occupational group, firms in "other" industries were significantly less likely than manufacturing companies to offer their workers

variable pay ( $p < .10$ ). Finally, for managers, firms in retail/distribution/hotels/catering were over seven times more likely to have variable pay than traditional manufacturing companies ( $p < .10$ ).

*Insert Table 5 here*

## **5. Discussion, Conclusions and Implications**

Resource based theory suggest that value of human capital stems, in part, from its capacity to contribute to the achievement of business strategies (Barney, 1991). Both strategic HRM and talent management scholarship has called on organizations to formally recognize that some employees and roles are more important than others and then make disproportionate investments towards those strategic roles and employees (Huselid, Beatty & Becker, 2005; Huselid & Becker, 2011). Yanadori and Kang (2011: 253) remark that “researchers seem to have accepted the notion of intra-firm differentiation of HRM systems” but that actual evidence on whether such differences actually occur is lacking. This paper has found that just in excess of half of the surveyed MNCs formally identify key groups of employees deemed critical to the firm’s core competences and organisational learning. Consequently, the paper found some support for the need to consider the application of RBT beyond managerial elites. However it was also evident that strategically identified employee groups were not necessarily a uniformly common feature of all organisations. This we contend makes it important that future research on this topic moves beyond clustering of job roles together and arguing they automatically represent a key or strategic employee grouping. There is scope to develop more refined and sophisticated measures to more accurately measure the presence of strategic employee groups beyond existing means. It could therefore be argued that the focus of researchers may move more in the direction of identifying various cohorts of workers as opposed to treating the workforce as one large group.

Differentiation in the application of rewards practices was common between the key group, managers and the largest occupational group. This provides support to the HR architecture and talent management literatures which stress the need for discrimination in HR practices according to

strategic value and contribution of employees. Lepak and Snell (1999: 32) argued that, “it may be inappropriate to simplify the nature of human capital investments and suggest that there exists a single optimal HR architecture for managing all employees”. Similarly, Jackson et al. (1989) noted that different groups of employees have varying importance to an organization’s competitive advantage which means that the HR management approach should also vary between groups of staff. On the whole, our results pointed to the greatest magnitude of differentiation between the key group and the largest occupational group. As our second table indicates, the key group is, by and large, closer on many reward practice offerings to managers than to the largest occupational group. This differentiation was also confirmed statistically in our third and especially our fourth tables. This suggests that the key groups are treated as being of sufficiently greater strategic value than those performing the more operational activities of the organisation (i.e. largest non-managerial occupational group). This result provides some support that many MNCs were adopting a contingent approach to rewards whereby particular rewards practices were only available to the key group and not the largest occupational group. However as we now turn there were less visible differences between the practices provided to the key group and managers.

The key group, where identified, appear therefore to be viewed as similar in strategic importance to managers. While managers are commonly provided with share options, profit sharing and sharing ownership schemes it is worth noting that the key group were typically more likely to receive top-quartile pay when compared to market comparators. Some differentiation by industry was evident but there was no great discernible pattern evident across all practices. The only minor pattern to emerge was that there was greater variation provision of top-quartile pay and share options to key groups in the financial and business services sector. Overall though our the results while significant do indicate that there were less discernible differences between the key group and managers on issues like top-quartile pay and share options. This poses a key question, worthy of future investigation, as to whether organisations have the right balance in their rewards strategies to

motivate and retain employees that are encompassed both across and within these key groupings. Lepak and Snell (1999, p. 42) contend that, “despite the practical appeal and theoretical parsimony of a ‘one-size-fits-all’ approach to HR management, employment modes in most organizations are not this homogenous, and HR systems are rarely this monolithic”. Our research suggests that variation may also exist beyond an employment mode or type conceptualisation. In conclusion we suggest that greater attention is needed on the potential differences in the HRM systems applied in organisations across different employee groups. This is something which talent management scholars are increasingly recommending to organisations (e.g. Collings and Mellahi, 2009).

We are cognisant that like any research study, there are some limitations that should be identified. The use of a single respondent (Bowman & Ambrosini, 1997) could be construed as a possible limitation and is thus acknowledged. In saying that, we argue that our selection of the most senior HR practitioner helps offset this due to their expertise (see Wright, Gardner, Moynihan, & Park, 2001). In other words, the respondent was the key informant. To further reduce the possibility of there being an issue with drawing on a single-respondent input, informants were advised in advance of the information we would be seeking and following advice of scholars, we spent a significant degree of time on developing and piloting the instrument before administration (Wright et al., 2001). We view this research as a starting point to further explore whether organisations actually formally determine strategic employee groupings and whether they subsequently adopt discerning managerial approaches to them. Future research that seeks to establish if the differentiated practices in place for the different employee groups lead to improved productivity and performance would be most worthwhile. Our study was only able to provide descriptive evidence on the use of practices, we were unable to consider the impact on different facets of performance. High quality human capital is not sufficient in its own right to build competitive advantage. Firms need to be organized in a way that enables them to effectively use their talent in the best means (Ulrich & Lake, 1991; Barney, 1995).

We call for research exploring the HR approaches adopted for each employee group and their impact on productivity and performance. While there is endorsement of differentiating HRM systems by employee groups there has been some evidence that points to negative consequences from diversity of compensation practices (Bloom, 1999). There is little doubt that this research lends itself to being illuminated through the use of multiple methodological approaches.

Ideally, the study would have incorporated additional parts of HRM systems. We are conscious of the emerging talent management literature and the importance placed on intrinsic factors, development and career management. Being able to have explored such aspects would undoubtedly allow greater determinations to be made and such an expansion is recommended in follow-up research. For instance, the collection of additional data on career management, development activities and relationships with job performance and turnover would be useful to allow greater conclusions be made such as the impact of practices on different groups of employees. The abilities, motivation, opportunity to participate, model (i.e. AMO-model) is popular in this type of research (e.g. Boselie et al., 2005; Edwards et al., 2013). Our focus here was on extrinsic financial factors (i.e. the motivation dimension) but we recommend that future research in this area would expand on the financial factors to also include practices that relate the 'A' and 'O' dimension. Being able to demonstrate variety on a fuller spectrum of HR practices and policies would undoubtedly add considerably. This paper does however represent a useful starting point. The use of a longitudinal research design would also be worthwhile to allow one to decipher if there is greater or less identification of key groups and changes in the HR approaches used over time.

Some MNCs recognized more than one key group but due to the nature of this research project respondents were forced to select one key group. In future, researchers might explore whether there are differentiated HR practices between different key groups within the one organization. Being able to develop greater depth to the characteristics of the key group concept and how organizations go about formally identifying this group would be of considerable value. A final point worthy of future

consideration is garnering an understanding of whether particular contextual factors predict the identification and management of key groups (e.g. occupational nature, country of ownership, strategic roles).

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**Table 1: Characteristics of Participating MNCs**

Country of origin	Ireland	US	UK	Europe	Rest of world	Total
<b>Worldwide Employment</b>						
< 500 – 999	19.1%	5.9%	0	4.8%	0	6.9%
1,000 – 4,999	51.1%	14.9%	20%	23.8%	7.1%	23.8%
5,000 – 29,999	27.7%	31.7%	40%	33.3%	57.1%	33.8%
30,000 – 59,999	2.1%	19.8%	17.1%	9.5%	14.3%	13.1%
> 60,000	0	27.7%	22.9%	28.6%	21.4%	22.3%
<b>Irish Employment</b>						
100 – 499	25.5%	56.4%	51.4%	69.8%	71.4%	54.2%
500 – 999	17%	16.8%	17.1%	12.7%	21.4%	16.2%
> 1,000	57.5%	26.7%	31.4%	17.5%	7.1%	29.6%
<b>Primary Sector</b>						
Traditional manufacturing	29.8%	8.9%	20%	11.1%	7.1%	14.6%
High tech manufacturing	4.3%	47.5%	5.7%	38.1%	42.9%	31.5%
Financial & business services	21.3%	36.6%	34.3%	27%	21.4%	30.4%

N=260

**Table 2: Frequency Analysis of HR Practices Used Per Employee Category (Total N Values in Brackets)**

	LOG	Key Group	Managers
<b>Pay Policy</b>	(245)	(127)	(247)
To be in Top Quartile	18.4%	30.7%	22.7%
To be in 2 <sup>nd</sup> Quartile	20.8%	29.1%	28.7%
To be at the Median	59.6%	40.2%	48.2%
Below the Median	1.2%	0	0.4%
<b>Financial Participation Schemes</b>			
Employee Share Ownership	29.5% (254)	34.6% (130)	32% (253)
Profit Sharing	26.7% (236)	34.7% (124)	34.3% (236)
Share Options	24.1% (241)	39.8% (128)	48.8% (244)
<b>Variable Pay</b>			
Performance Related Pay	66.9% (257)	85.8% (134)	91% (255)

**Table 3: Crosstabs of Differentiation in HR Architecture: Key Group versus LOG or Managers**

	LOG		Managers		
		No	Yes	No	Yes
<b>Key Group</b>	<b>IS THE GROUP GIVEN TOP QUARTILE PAY?</b>				
	No	97.7%	2.3%	No	95.5%
	Yes	48.7%	51.3%	Yes	35.9%
	<b>IS THE GROUP GIVEN SHARE OWNERSHIP?</b>				
	No	100.0%	0.0%	No	97.6%
	Yes	4.4%	95.6%	Yes	0.0%
	<b>IS THE GROUP GIVEN PROFIT SHARING?</b>				
	No	100.0%	0.0%	No	92.5%
	Yes	7.3%	92.7%	Yes	2.3%
	<b>IS THE GROUP GIVEN SHARE OPTIONS?</b>				
No	100.0%	0.0%	No	76.6%	
Yes	38%	62%	Yes	5.9%	
<b>IS THE GROUP GIVEN PERFORMANCE-RELATED PAY?</b>					
No	68.4%	31.6%	No	31.6%	
Yes	22.6%	77.4%	Yes	0.9%	

The figures in the shaded cells indicate positive differentiation for the key group when compared against the LOG/managers

The numbers that are italicized indicate negative differentiation for the key group when compared against the LOG/managers

The 'no/no' and 'yes/yes' values (in plain text) indicate identical treatment between the key group and the LOG/managers.

**Table 4: Crosstabs of Differentiation in Count of HR Practices between Key Group and LOG or Managers**

Key Group	LOG						
		0	1	2	3	4	5
	0	85.7%	<i>14.3%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	---
	1	40.7%	51.9%	<i>7.4%</i>	<i>0.0%</i>	<i>0.0%</i>	---
	2	8.1%	27.0%	62.2%	<i>2.7%</i>	<i>0.0%</i>	---
	3	0.0%	19.2%	26.9%	53.8%	<i>0.0%</i>	---
	4	0.0%	0.0%	0.0%	57.1%	42.9%	---
	5	0.0%	0.0%	25.0%	50.0%	25.0%	---
	Managers						
		0	1	2	3	4	5
0	14.3%	<i>57.1%</i>	<i>14.3%</i>	<i>14.3%</i>	<i>0.0%</i>	<i>0.0%</i>	
1	0.0%	59.3%	<i>33.3%</i>	<i>7.4%</i>	<i>0.0%</i>	<i>0.0%</i>	
2	0.0%	2.8%	77.8%	<i>16.7%</i>	<i>2.8%</i>	<i>0.0%</i>	
3	0.0%	3.7%	14.8%	66.7%	<i>14.8%</i>	<i>0.0%</i>	
4	0.0%	0.0%	0.0%	14.3%	85.7%	<i>0.0%</i>	
5	0.0%	0.0%	0.0%	0.0%	50.0%	50.0%	

The figures in the shaded cells indicate positive differentiation for the key group when compared against the LOG/managers  
 The numbers that are italicized indicate lower differentiation for the key group when compared against the LOG/managers  
 The 'no/no' and 'yes/yes' values (in plain text) indicate identical treatment between the key group and the LOG/managers.

**Table 5: Paired Samples Means and  $\chi^2$  Tests: Key Group and LOG**

Variable	KG Mean (Std. Error)	LOG Mean (Std. Error)	% Change	$\chi^2$ Test
Top-Quartile Pay	.307 (.041)	.173 (.034)	+55.8%	45.321***
Share Ownership	.346 (.042)	.331 (.041)	+4.4%	121.367***
Profit Sharing	.336 (.043)	.312 (.042)	+7.4%	109.035***
Share Options	.394 (.044)	.244 (.038)	+47.0%	63.156***
Performance- Related Pay	.858 (.030)	.709 (.039)	+19.0%	16.586***
Total Count of Practices	2.217 (.113)	1.730 (.109)	+24.7%	148.720***

**Table 6: Paired Samples Means and  $\chi^2$  Tests: Key Group and Managers**

Variable	KG Mean (Std. Error)	MAN Mean (Std. Error)	% Change	$\chi^2$ Test
Top-Quartile Pay	.307 (.041)	.228 (.037)	+29.5%	54.399***
Share Ownership	.346 (.042)	.362 (.042)	-4.5%	121.539***
Profit Sharing	.350 (.043)	.390 (.044)	-10.8%	95.571***
Share Options	.398 (.043)	.516 (.044)	-25.8%	61.472***
Performance- Related Pay	.858 (.030)	.948 (.019)	-10.0%	31.060***
Total Count of Practices	2.226 (.113)	2.426 (.099)	-8.6%	216.537***

**Table 7: Regressions by Sector**

		Key Group		LOG		Managers	
		Coeff. (S.E.)	Odds	Coeff. (S.E.)	Odds	Coeff. (S.E.)	Odds
<b>Top-Quartile Pay</b>	<i>High-Tech Manufacturing</i>	.874 (.974)	2.396	-.969 (.597)	.380	.029 (.593)	1.030
	<i>Finance/Business</i>	1.832** (.893)	6.247	-.137 (.533)	.872	.612 (.539)	1.844
	<i>Retail/Distribution/Hotels/Catering</i>	1.007 (1.030)	2.738	.207 (.591)	1.230	.844 (.586)	2.326
	<i>Other</i>	1.763* (1.001)	5.831	-.399 (.783)	.671	1.079 (.667)	2.941
<b>Share Ownership</b>	<i>High-Tech Manufacturing</i>	.874 (.710)	2.397	.776 (.511)	2.172	.864* (.504)	2.373
	<i>Finance/Business</i>	.182 (.656)	1.200	.254 (.482)	1.289	.281 (.472)	1.324
	<i>Retail/Distribution/Hotels/Catering</i>	-.383 (.812)	.682	-.029 (.542)	.971	-.145 (.536)	.865
	<i>Other</i>	-1.654 (1.202)	.191	-.818 (.861)	.441	-.993 (.860)	.370
<b>Profit Sharing</b>	<i>High-Tech Manufacturing</i>	-.443 (.686)	.642	-.035 (.512)	.965	-.150 (.488)	.861
	<i>Finance/Business</i>	.186 (.630)	1.204	.280 (.475)	1.323	.182 (.457)	1.199
	<i>Retail/Distribution/Hotels/Catering</i>	-.243 (.798)	.785	-.441 (.573)	.643	-.140 (.518)	.869
	<i>Other</i>	.644 (.774)	1.904	-.130 (.696)	.878	.516 (.616)	1.676
<b>Share Options</b>	<i>High-Tech Manufacturing</i>	.835 (.688)	2.304	-.593 (.514)	.553	.454 (.484)	1.574
	<i>Finance/Business</i>	1.147* (.648)	3.149	-.077 (.474)	.926	.332 (.449)	1.394
	<i>Retail/Distribution/Hotels/Catering</i>	.426 (.787)	1.531	-.622 (.596)	.537	-.480 (.510)	.619
	<i>Other</i>	-.589 (.958)	.555	-.714 (.746)	.490	-.302 (.619)	.740
<b>Performance-Related Pay</b>	<i>High-Tech Manufacturing</i>	.601 (.843)	1.824	-.146 (.456)	.864	.404 (.687)	1.498
	<i>Finance/Business</i>	1.265 (.787)	3.542	.753* (.455)	2.124	.833 (.662)	2.301
	<i>Retail/Distribution/Hotels/Catering</i>	1.429 (1.007)	4.174	.159 (.490)	1.173	1.985* (1.122)	7.279
	<i>Other</i>	2.273* (1.241)	9.707	-.976* (.589)	.377	.758 (.883)	2.134
<b>Total Count of Practices</b>	<i>High-Tech Manufacturing</i>	.393 (.382)	---	-.266 (.266)	---	.194 (.253)	---
	<i>Finance/Business</i>	.626* (.354)	---	.056 (.251)	---	.179 (.239)	---
	<i>Retail/Distribution/Hotels/Catering</i>	-.174 (.457)	---	-.441 (.286)	---	-.103 (.274)	---
	<i>Other</i>	.287 (.448)	---	-.767** (.351)	---	.013 (.336)	---

\*\*\* = significant at .01 level; \*\* = significant at .05 level; \* = significant at .10 level

Controls: country of origin and employment size. Reference category: traditional manufacturing

**Appendix – Sample of relevant questions from the survey**

Thinking of policy in [COMPANY NAME] in Ireland as a whole on pay levels in relation to market comparators, do [COMPANY NAME] in Ireland aim to be...?

[READ OUT SHOWCARD 15 – CODE ONLY ONE FOR EACH CATEGORY]

[READ OUT: Please include formal and informal policy]

[READ IF NECESSARY: The median/midpoint is the middle value or 50th percentile i.e. if 'the median' is selected, the aim is to have pay levels at the centre/middle point in relation to market comparators.]

**SHOWCARD 15**

In the top quartile	In the second quartile	At the median/ midpoint	Below the median/ midpoint
---------------------	------------------------	-------------------------	----------------------------

Do [Company Name] aim to be ...	In the top quartile	In the second midpoint	At the median/ midpoint	Below the median/ midpoint	DK
For [LOG Name] .....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
For [Key Group Name] .....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
For managers .....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Does [COMPANY NAME] in Ireland offer the following to any employees in each of these groups? [READ OUT SHOWCARD 16]**

**SHOWCARD 16**

- 1. Approved employee share ownership scheme (AESOS)** is where the organisation establishes a trust which acquires shares on behalf of employees and provides employees with part ownership of the company.
- 2. Profit sharing** refers to rewards given to employees in addition to normal salary and bonuses which are dependent on the levels of profit in the business.
- 3. Share options** is where employees are given the option of buying company shares, often at a reduced rate.

Note: DK = Don't know

	AESOS			Profit Sharing	
	Yes	No	DK	Yes	No
For [LOG Name] .....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
For [Key Group Name] .....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
For managers .....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>