HOST COUNTRY NATIONAL REACTIONS TO EXPATRIATE PAY POLICIES: A MODEL AND IMPLICATIONS

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We examine the referent selection process of host country national (HCN) employees. We outline the conditions under which they are more likely to select expatriate colleagues as comparative referents and suggest that, when this occurs, they are likely to experience relative deprivation. We also highlight the role of national culture in the process. Our model shifts the focus of overseas assignments research from the expatriate to the HCN, and it also has important practical implications for multinational enterprises sending employees overseas.

Research in international human resource management (IHRM) has tended to focus on issues primarily surrounding expatriation (Aycan & Kanungo, 1997). In the past decades we have seen a plethora of solutions—in the form of expatriate policies—offered for maximizing the probability of expatriate success and for combating failure (e.g., Black, Gregersen, Mendenhall, & Stroh, 1998; Tung, 1987). One such proposition has been to provide expatriates attractive reward packages for taking up the assignment. Even though this research has shed light on managing overseas assignments, scholars have not clearly considered the effects these policies might have on the local colleagues of the expatriate, also known as host country nationals (HCNs). This is unfortunate, since HCNs are valuable socializing agents, sources of social support, assistance, and friendship to fledgling expatriates (Black, Mendenhall, & Oddou, 1991; Caligiuri & Cascio, 1998). Expatriates are more likely to adjust when HCNs engage in these "extrarole" behaviors (Caligiuri, 2000; Mendenhall & Oddou, 1985) than when HCNs are uncooperative or antagonistic. Clearly, HCNs have an important role to play in the adjustment process. Yet researchers, at present, have overlooked this important organizational stakeholder. Hence, some have called for greater attention to be given to the HCNs' perspective (Aycan & Kanungo, 1997; Sinangil & Ones, 1997).

This paper is intended to stimulate research that focuses on HCNs. We propose a model that outlines the conditions under which HCN employees are more likely to compare their pay to that of the expatriates within the host unit, as well as their reactions to this particular social comparison. That is, we investigate conditions that might prompt HCNs to choose expatriates as their "referent others" in deciding whether rewards are justly allocated by the organization. We use extant literature to formulate and propose organizational, social, and psychological factors that influence the choice of expatriate referents and the possible outcomes of this comparison. We also propose the moderating role of cultural values on the relationship between choosing expatriate referents and the possible outcomes of this comparison.

Our model builds on existing theorizing about the referent selection process (e.g., Kulik & Ambrose, 1992). In their model, Kulik and Ambrose propose the mediating role of information availability and referent relevance between antecedent variables and referent choice. They also delineate the situational and personal characteristics that influence the cognitive and psychological processes leading to the mediating variables. In addition to applying their model in the multinational enterprise (MNE) context, our

model extends theirs primarily by incorporating the role of social identification in determining referent choice and the interrelationships among salience of the social outgroup, information availability, and referent relevance.

Even though Kulik and Ambrose (1992) imply the effects of identity salience in their model, we emphasize social identity salience here and present it as a main factor influencing referent choice. This is because our context of interest involves a unique social dynamic where employees can be distinguished by their national social identities. We put forward the characteristics of the host unit context that act as potent forces that may cause national identities to heighten and drive social behaviors consistent with one's membership to the social group. Also, the present context allows us to highlight the role of national cultures in the social comparison process and to outline their influence on potential outcomes.

We also draw upon relative deprivation (RD) theory (Runciman, 1966) to predict the potential cognitive, psychological, and behavioral implications of the suggested social comparison. A key aspect of our model is determining the conditions under which HCNs perceive and experience RD. We propose that understanding HCNs' justice evaluation is imperative, because the helping behaviors directed at the expatriate can facilitate expatriate success (Black et al., 1998). Much of the literature on extrarole behaviors has identified perceived justice as a key predictor (e.g., Moorman, 1991). Hence, our model elucidates the potential effects of expatriate pay policies on HCNs' perceptions and behaviors and their ultimate influence on expatriate success. In the process, we highlight a dilemma that many MNEs face: maintaining some form of internal equity while providing sufficient incentive to attract and motivate overseas assignees (Torbiorn, 1982).

UNANTICIPATED EFFECTS OF EXPATRIATE COMPENSATION POLICIES

Extant research has shown little concern about the unanticipated effects on HCNs of pay policies that tend to place expatriates in a relatively advantageous position. A survey of Society of Human Resource Management International (SHRMI) members reports pay discrepancies between HCNs and expatriates

as a very significant problem, with headquarters (HQ) expatriates consistently receiving relatively preferential treatment (Harvey, 1993). This scenario is further supported by anecdotal evidence (e.g., Beamish, 1998). People engage in social comparisons to evaluate their positions in a social structure (Ofshe, 1972). If HCNs observe expatriates getting paid far more for similar responsibilities, they may become resentful (Gladwin & Walter, 1980). Any potential feelings of injustice may lead to serious, negative, job-related outcomes (Scholl, Cooper, & McKenna, 1987) and may, in turn, negatively affect the success of expatriates, as well as the host and home organizations (Leung, Smith, Wang, & Sun, 1996). However, it is clear that these problems will arise if and only if HCNs choose to and are able to compare their pay with that of expatriates.

In the host unit context, expatriates are a potential comparative referent for HCNs. Perhaps, in the past, there was not much opportunity for HCNs to seriously choose expatriates as referents because of the vast differences between HCNs and expatriates in terms of their skills and experiences, their economic opportunities, and the level of positions typically held by HCNs and expatriates in the host unit. But the world in which global businesses operate is changing. Host countries are now more advanced economically and socially, and their workers are becoming progressively more skilled and qualified to hold higher-level positions that would have required HQ expertise in the past (Hailey, 1996; Harvey, Speier, & Novicevic, 2001).

Although this trend might imply that fewer expatriates are deployed, this is not the case. MNEs increasingly value international experience in their human capital (Carpenter, Sanders, & Gregersen, 2001). They send managerial and nonmanagerial employees (e.g., professionals and engineers) overseas for varying periods of time to expose them to different cultural environments (Black & Gregersen, 1999; Solomon, 1995). Assignments are meant more often now as developmental experiences for the expatriates than for filling staffing gaps (Solomon, 1995). "Double staffing" with HQ personnel and HCNs, especially in international joint ventures, is also often carried out to ensure adequate control of the host unit, coordination of strategic activities, and transfer of knowledge gained at the host country back to HQ (Torbiorn, 1994). Thus, we

increasingly encounter situations where HCNs hold similar-level positions, or even similar jobs, as the expatriates at the host unit (Hailey, 1996). When HCNs observe that they are paid less than their expatriate counterparts for performing similar jobs, they are likely to experience injustice.

To determine if HCNs experience injustice, we must first outline the conditions that increase the likelihood HCNs will choose expatriate referents. We therefore begin our survey of this concern with a brief overview of the issue of referent choice.

REFERENT SELECTION: COMPARISON TO WHOM?

The issue of referent choice when evaluating pay is important for anyone interested in reactions to pay policies (Kulik & Ambrose, 1992; Summers & DeNisi, 1990). Only if a focal person notices a pay differential might he or she react to that differential. In the present context, if HCNs do not choose expatriates as referents, they will be unlikely to notice and react to any pay differentials.

Research suggests a range of possible referents when judging the fairness of outcomes. Goodman (1974) classifies potential referents into other, system, and self. The referent "other," the most commonly studied class of referents, may either belong to the same (internal) or different (external) organization as the focal person. An internal other may be anyone within the same organization who performs similar or substantially different jobs, whereas an external other is someone employed by another organization (e.g., others of the same occupation or profession, family, friends, or neighbors). Potential referents also may be "generalized others," where the referents are not specifically inside or outside the organization but are similar to the focal person in some attribute, such as abilities or training (Berger, Zelditch, Anderson, & Cohen, 1972). Individuals may choose to compare themselves as well against certain *groups* of individuals, rather than just certain individuals. For example, a female secretary may choose to compare his or her pay package with that received by the male secretaries in the company, instead of anyone who is also a secretary in the company. Next, rather than other individuals, a referent may be the "system" or simply what was

contracted (either implicitly or explicitly) between the individual and his or her employer (Summers & DeNisi, 1990). Finally, a referent may be internal, such as the input/outcome ratio of a past job (Goodman, 1974), a personal evaluation of one's self-worth (Scholl et al., 1987), or a future goal (Kulik & Ambrose, 1992).

Referents also may be "similar" or "dissimilar" to the focal individual. Whether similar or dissimilar referents are preferred is still open to theoretical debate (Brown & Haeger, 1999). Similar referents are chosen because they are easily accessible and often provide a relevant basis for focal individuals to compare themselves against. A dissimilar referent may be preferred if the individual perceives the referent as at least relevant (or attractive) in some way and has access to information about that referent (Kulik & Ambrose, 1992). This is also true even if the comparison is unfavorable (Berger et al., 1972). However, determining who is or is not similar is a rather complex issue (Atkinson, 1986). Clearly, people may be similar and dissimilar in almost infinite ways. Individuals (as well as researchers) may not even be aware of what all these dimensions are or accurately consider the relevant ones in any given situation (Austin, 1977). Hence, depending on the viewpoint taken, a referent may, in fact, be both similar or dissimilar.

There is much evidence that points to a high likelihood that people tend to use more than one of these possible referents at any given time when making fairness evaluations (Hills, 1980; Scholl et al., 1987). Goodman (1974), for example, found that the majority of the respondents in his sample combined pay referents from multiple referent classes in various ways (77 percent) and that only a minority used one pay referent. Hence, even if HCNs choose expatriate referents, they are likely to also compare their pay packages with other referents and combine multiple referent groups in order to determine the fairness of their outcomes.

Although the above discussion suggests that there are a number of potential referents that HCNs can choose from and that, most often, more than one referent is selected, it also makes clear that the expatriate is one such potential referent. Thus, we examine the conditions that cause HCNs to select expatriate referents and the outcomes of such a comparison. We now

present our model, as well as a series of research propositions that follow from the model.

WHEN HCNS SELECT EXPATRIATE REFERENTS: A MODEL

Our model (Figure 1) draws on more recent work that specifies the conditions under which a particular referent is more likely to be chosen (e.g., Kawakami & Dion, 1993; Kulik & Ambrose, 1992). We propose that the salience of social group identities (expatriate versus HCN) is an important condition that influences the likelihood certain referent groups are selected. In addition, following recent theorizations, our model shows that the availability of information about expatriates and expatriates' relevance as referents (e.g., Kulik & Ambrose, 1992) affect the likelihood of choosing expatriate referents.

The following sections highlight how the unique contextual factors present at the host unit influence HCNs' selection of expatriate referents. The model may be viewed in two parts: (1) the antecedents of HCNs' choice of expatriate referents and (2) the outcomes or reactions to the comparison.

Salience of National Identity

It would seem fairly common in host units that HCNs would perceive expatriates as a salient social outgroup. Social categorization—the "segmentation of the world so as to impose an order on the environment and provide a locus of identification for the self" (Taylor & Moghaddam, 1987: 73)—pervades organizational life and stems from our tendencies to simplify our environment (Tajfel, 1981). Individuals bifurcate perceived attributes, creating cognitive boundaries between their own social group (ingroup) and outgroups (Atkinson, 1986). In general, social categorization theorists argue that categories are formed when a social category gains salience (Pratt, 1998). When an identity gains salience, the awareness of that identity influences the individual's subsequent perceptions and behaviors (Cota & Dion, 1986; Kawakami & Dion, 1993), including the choice of referent others.

The kinds of social comparison differ, depending on which identity is relatively salient to the individual (Brickson & Brewer, 2001). When personal or individual identity is relatively salient vis-à-vis social identity, the individual is more likely to engage in interindividual or intragroup comparisons; when group self-identity is salient, the focus is directed at intergroup comparisons (Kawakami & Dion, 1993). Hogg and Terry state:

> When a specific social identity becomes the salient basis for self-regulation in a particular context, self-perception and conduct become ingroup stereotypical and normative, perceptions of relevant outgroup members become outgroup stereotypical, and intergroup behavior acquires, to varying degrees depending on the nature of relations between the groups, competitive and discriminatory properties (2001: 3).

In the context of a host unit, a potential source of social identity may be nationality. The host unit poses a situation in which more than one national group is present. According to social categorization theory (SCT), when the national identity of HCNs gains salience, so does the presence of other national groups, such as the non-HCNs or, in this case, the expatriates. This may invoke a degree of "us versus them" mentality among HCNs about expatriates, causing the expatriate outgroup to form a potential referent comparison group (Hogg & Terry, 2001) for HCNs, thus increasing the likelihood that social comparisons cross national lines (Brickson & Brewer, 2001). Hence, in the present context, we expect that if national identities gain salience, HCNs are more likely to select the expatriate outgroup as a comparative referent and evaluate the fairness of the treatment they receive from the organization.

> *Proposition 1: Increased salience of the expatriate outgroup increases the salience of expatriates as a potential comparison group and, thus, increases the likelihood that HCNs will choose expatriate referents.*

But, as noted, HCNs will not always choose expatriates as referent others, and therefore it is clear that the development of a national identity among HCNs is not a foregone conclusion. It is important, then, to specify some conditions where the salience of national identity among HCNs is most likely to increase. In extant research scholars forward several factors (e.g., Ashforth & Johnson, 2001; Atkinson, 1986; Kawakami & Dion, 1993; Wharton, 1992). SCT theorists suggest that situational factors, including organization-created categories that differ-

FIGURE 1
Referent Selection Model of HCNs
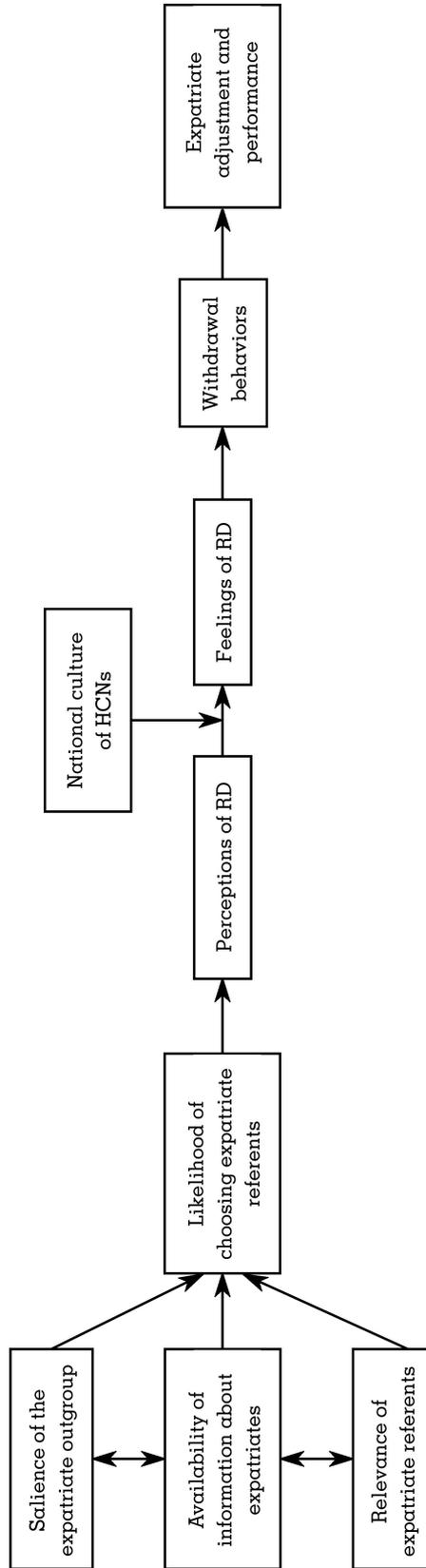
entiate individuals based on certain attributes, category size, and composition may significantly affect the salience of social identities. These factors, in turn, increase the likelihood that social comparisons are made across groups instead of across individuals. In the host unit context, several differentiating organizational factors and social characteristics that create categories (both informal and formal) may increase the salience of the HCNs' national identity and the likelihood they will compare their pay packages against the expatriate outgroup. We discuss these factors next.

Differentiating Organizational and Social Factors in the Host Unit

Differentiating effects of expatriate pay policies. Expatriate pay can follow one or a mix of several basic approaches. The most popular approach among U.S. MNEs is the balance sheet or home country–based approach (Gould, 1999). This approach aims to maintain a standard of living for the expatriate in the host country comparable to that in the home country (Black et al., 1998). Incentives, allowances, and perquisites are also often provided. Among these are foreign service premiums for accepting the overseas assignment and "hardship" allowances for bearing the inconveniences that may accompany the assignment (Leung et al., 1996).

If expatriates originate from a relatively developed country, these premiums and salary adjustments are likely to be quite high, ceding a huge advantage to the expatriates relative to the HCNs for a given job or position (Harvey, 1993). Furthermore, many HR practices tend to be culture specific (Mueller & Clarke, 1998; Schuler & Rogovsky, 1998). MNEs, thus, may be compelled to adopt a different set of HR practices to cater to the expatriates' expectations and to avoid negative job-related outcomes (e.g., turnover; Birdseye & Hill, 1995; Ryan, McFarland, Baron, & Page, 1999). Doing so may result in even larger differences between expatriates and HCNs in terms of pay, promotion, and development opportunities (Gladwin & Walter, 1980).

We suggest that, in some cases, the existing expatriate pay policies themselves can increase the likelihood HCNs will engage in intergroup comparisons with the expatriates by increasing the salience of national identities. Substantial differences in pay often clearly differentiate the

expatriates from the HCNs. They accentuate the presence of the two subgroups, emphasizing any intergroup differences and intragroup similarities. When structural categories—in this case, pay differentials—are in line with a salient social category, the category is reinforced and the identity attains greater salience (Ashforth & Johnson, 2001). Hence, in the present context, pay levels among HCNs and expatriates may cause social categories based on nationality to gain salience. With group identities salient, group members are more likely to think and act in terms of their group identities and, more important, to engage in intergroup comparisons with outgroups (Kawakami & Dion, 1993). Therefore, if national identities become salient, we expect that HCNs will be more likely to engage in intergroup behaviors, comparing their pay against the expatriate referent outgroup. Here, the object of comparison is, at the same time, a feature of the social situation that deepens social demarcations and increases the likelihood social comparisons will occur along these lines.

> *Proposition 1a: Expatriate pay practices that differentiate HCNs and expatriates increase the salience of national identities and, thus, increase the likelihood that HCNs will choose expatriate referents.*

Clearly, expatriate pay policies that do not place HCNs at such a clear disadvantage or that weaken the perception of any such disadvantage will reduce the likelihood that national identities will become salient and the likelihood that HCNs will choose expatriate referents. MNEs may pay expatriates according to host country rates, thus reducing the differentiation between the HCNs and the expatriates or inducing comparisons with the local pay market rates that may be lower instead and less likely to cause feelings of RD.

Differentiating social characteristics. In addition to differentiating pay packages, the salience of the expatriates as a referent outgroup may be further increased by the social characteristics and the social dynamics present in the host unit. Distinctiveness theorists (e.g., McGuire, 1984) posit that social categories or social groups are most often formed based on their most salient attribute within a given social context. Salient social characteristics and the

salience of a distinctive outgroup may cede prominence to the corresponding social identity (Mehra, Kilduff, & Brass, 1998; Turner, 1981). As a result, social groups are often formed around basic demographics, such as gender, age, ethnicity, and nationality. These are often characteristics immediately apparent to individuals (Wharton, 1992), and they are familiar and easily accessible in any given social situation (Atkinson, 1986). It is conceivable that if the HCNs and expatriates are distinctive in appearance (different hair and/or skin color, physical build, language, cultural values and assumptions), national identity differences will be salient (Major & Deaux, 1982). In the context of the host unit, physical, attitudinal, and behavioral differences are likely to be salient, especially if the expatriates are from a culturally distant country.

Next, the relative proportion of expatriates to HCNs in the host unit might cause expatriates to be a distinctive outgroup. Expatriates may be present as a token or as a more balanced counterpart in terms of numbers. This usually depends on the staffing approach of the MNE. A polycentric staffing approach would minimize the number of expatriates in the host unit and also not place expatriates only at key positions, whereas a more global staffing approach would assign expatriates at multiple levels of the organization and use expatriates from countries other than the HQ country. In these situations, categorization based on nationalities would less likely occur and expatriates would less likely be perceived as members of an outgroup, because the expatriate outgroup might be less distinct. If, however, an ethnocentric approach or one that placed only parent country expatriates in managerial positions were adopted, it would cause expatriates to stand out from the other organizational members. In addition, expatriates might distinguish themselves further by isolating themselves in an expatriate lifestyle and relying on expatriate contacts, rather than working to establish local networks, thus divorcing themselves socially from HCNs (cf. Black et al., 1991; Caligiuri, 2000; Hailey, 1996). This might further reinforce the distinctiveness of the expatriates as a separate group.

> *Proposition 1b: The differentiating effects of the social characteristics within the host unit increase the salience of national identities and, thus,*

raise the likelihood that HCNs will choose expatriate referents.

Again, we do not suggest that national group identification is inevitable. Clearly, social categorization based on nationality will be less likely to occur if nationality is not the most salient feature distinguishing groups of employees (Ashforth & Johnson, 2001). Such a situation could arise if cultural distances were small, despite differences in nationalities, or if other sources of social identity (such as age, gender, or ethnicity) were more salient.

So far, we have argued that salience of the expatriate as a comparative outgroup stems from the processes of categorization and identification that the HCNs undergo with respect to their national identities. But, in addition to the salience of the expatriates as an outgroup, there are other factors suggested in the referent choice literature that can be important in influencing the choice of an expatriate referent: availability of information about expatriates and the relevance of expatriates as referents.

Availability of Information About Expatriates

As noted earlier, researchers have proposed that the choice of a referent is also a function of the availability of information about the referent (Goodman, 1974; Levine & Moreland, 1987). According to Kulik and Ambrose (1992), availability of information is often highly influential in the referent selection process, resulting in comparers' choosing dissimilar and even self-deprecating referents. In the present case, we argue that the availability of information about expatriates is chiefly dependent on the proximity of expatriates to HCNs in the organization.

Martin (1981) suggests that dissimilar but proximal others are more likely chosen as referents, even though more similar but relatively distant others are present. Proximity works in at least two ways. First, proximal outgroups, such as those the employee primarily works or lives with, tend to be more salient to a comparer, thus causing the employee to more likely identify with his or her particular social group (Tyler, Boekmann, Smith, & Huo, 1997) and, as alluded to earlier, thus leading to intergroup comparisons. Second, information about proximal others is more readily or easily accessible and available than information about distal others, thus

making the comparison process easier (Austin, 1977). Hence, proximal outgroups may be noticed and selected as comparative referents, even though they may be more dissimilar than a member of the comparer's ingroup (Kulik & Ambrose, 1992).

If HCNs increasingly work intimately alongside expatriates (Hailey, 1996), either as coworkers, subordinates, or, in many instances, even superiors, they are often in a good position to evaluate the expatriates' deservingness on the basis of the expatriates' qualifications and performance, as well as their shortcomings and inadequacies (Gladwin & Walter, 1980; Leung & Morris, 2000). Hence, even though expatriates may be identified as a social outgroup, if interactions occur between the HCN and expatriates, information about the expatriates' abilities and work performance may be easily observable because of close work relationships. Information about the expatriates' pay packages may also be available informally through observation or through conversation. Thus, comparisons may still occur (e.g., Hailey, 1996). However, if expatriates are assigned as a group to the host unit to work on specialized projects and have little contact with HCNs within the organization, then information about the expatriates may be less forthcoming to the HCNs, making comparisons with expatriates more difficult.

> *Proposition 2: The closer the proximity of HCNs to expatriates, the greater the availability of information about the expatriates and, hence, the greater the likelihood that HCNs will choose expatriate referents.*

The Relevance of Expatriates As Referents

It has also long been suggested that the relevance of a particular referent class influences its use (Adams, 1963). Goodman suggests that relevance or attractiveness is a "function of its instrumentality in satisfying certain needs" (1974: 175). Instrumentality is, in turn, influenced by the *ease of making the comparison* and the *appropriateness of the referent* to satisfy the need for things such as self-esteem, feedback, and recognition (Goodman, 1974). Hence, for HCNs to choose expatriate referents, they need to first view expatriates as a relevant referent other that will help satisfy certain needs.

Again, there are several organizational and social factors present in the host unit that might influence the relevance of the expatriate referent, which, in turn, will influence the likelihood that expatriates will be chosen as referents. Kulik and Ambrose (1992) propose that individuals in more integrated fields will make more comparisons that transcend demographic differences as compared to individuals in situations where segregation of occupations occurs. This is because if more individuals from other social groups (i.e., male and female, white and black) are substantially represented in a particular occupation, the chances are greater that a member of an outgroup will be a relevant comparison and that the availability of information about that referent will be higher.

In a host unit context, segregation between HCNs and expatriates may occur to varying extents and may influence the relevance of the expatriate referent. Once more, the staffing orientation of the MNE can influence the likelihood that an expatriate referent will be chosen. If the staffing orientation is one that balances the use of HCNs and expatriates in multiple positions and levels of the organization, the likelihood of comparison with an expatriate increases. If, however, the positions are segregated, with expatriates holding perhaps higher positions, as is usually the case in more ethnocentric orientations, expatriates may be viewed as less appropriate referents, and information about their inputs/outcomes ratios may also be less available. For example, if HCNs consistently hold low-level shop floor positions, the expatriate manager or executive will not be an appropriate referent or have any relevant basis for comparison. If, however, HCNs and expatriates hold similar positions or positions close to each other, expatriates more likely will be viewed as relevant referents.

In addition to staffing orientation, other social factors may influence the relevance of expatriate referents through the integration of expatriates and HCNs within the organization. The differences in economic development of the host country and the expatriate's home country may also cause segregation within the organization. If the economic status of the HCNs and that of the expatriates are vastly different, occupational status within the host unit may differ along national lines. Again, HCNs may likely hold lower-level positions, whereas the expatri-

ates may occupy the strategic positions. In this situation, expatriates are less relevant referents for HCNs. However, if the economic development of both the host country and the expatriates' home country is similar, it is likely that the higher-level positions within the host unit previously dominated by the expatriates will be filled by more HCNs. Hence, with more HCNs in similar positions as expatriates, it is more likely that expatriates will be relevant referents for the HCNs (Hailey, 1996).

Finally, making comparisons with expatriates relative to pay should help HCNs meet their basic needs for feedback about their performance, value to the organization, and recognition. By comparing themselves with others holding similar positions, HCNs have a logical basis for evaluating how much the organization values their contribution. Thus, if expatriates hold similar positions as HCNs, they are potentially relevant referents for HCNs.

> *Proposition 3: The more integrated the HCNs and expatriates are within the host unit, the greater the relevance of expatriate referents and, hence, the greater the likelihood that HCNs will choose expatriate referents.*

We have outlined the factors and conditions that could increase the probability that HCNs will choose expatriates as referent others. However, these conditions are also interdependent (Kulik & Ambrose, 1992). Figure 1 suggests that all three conditions may have indirect as well as direct influences on referent choice. When information about expatriate pay and inputs is easily accessible, as noted, it may cause national identities to become salient, and because expatriates as an outgroup are now salient to HCNs, they may become a relevant referent. At the same time, when national identities become salient and expatriates are viewed as potentially relevant referents, HCNs may more actively seek out information about expatriates (Kulik & Ambrose, 1992). Consequently, HCNs are more likely to choose expatriate referents. However, it is clear that even when the expatriate outgroup is salient, if information about them is unavailable, or if HCNs cannot establish the outgroup as a relevant referent, the comparison is unlikely to be made. Similarly, if pay information is available and expatriates are indeed relevant

referents, but their presence is not salient to HCNs, expatriates may not be chosen as referents.

We emphasize that the factors we propose do not make such comparisons inevitable and that expatriates are not the only and most likely referents from which HCNs can choose. When these comparisons occur, however, it is likely that the HCNs will perceive the pay discrepancies or RD that almost surely exists. As noted earlier, objective deprivation of HCNs is caused by the favorable expatriate packages offered to expatriate employees for taking on the assignment.

> *Proposition 4: When expatriate referents are chosen, HCNs will perceive RD created by differentiating expatriate pay policies.*

Yet even when expatriates are chosen as referent others and when objective pay deprivation is perceived, feelings of injustice are not always invoked. If RD is not experienced or felt, actions to resolve the injustice are unlikely (Martin, 1986). There is a series of conditions and circumstances that make it more likely that disadvantaged members will experience feelings of RD. We turn now to the second part of our model: a consideration of those factors and the potential outcomes of these feelings.

HCN REACTIONS TO PAY COMPARISONS

In objective terms, HCNs are likely to be relatively deprived compared to their expatriate counterparts. Yet the justice and RD research have shown that the presence or even the perception of these differences does not always lead to feelings of RD and subsequent actions (Martin, 1986; Tajfel, 1982). We have discussed one critical condition for RD—the choice of expatriate as the referent other—and presented some ideas about when this choice is more likely. But there are also other conditions that must exist before RD is experienced, one of which is that the outcome in question should be one that is desired (Tyler et al., 1997). Another condition that must be satisfied is that the individual should feel that he or she deserves or is entitled to the outcome (Crosby, 1984; Lansberg, 1989). Finally, the individual must also feel that the deprivation is not the result of some legitimate consideration.

We suggest that, in the present context, if all of these conditions are met, HCNs are more likely to experience feelings of RD. Thus, if HCNs select expatriates as one of their pay referents, if they value pay (whereby more pay is almost always favored), and if they feel entitled to at least similar compensation as their expatriate counterparts for performing the same jobs, they are more likely to experience feelings of RD.

Furthermore, HCNs may also feel that expatriates do not deserve the higher rewards. HCNs often perceive expatriates as lacking necessary skills and experience and as being unable to communicate knowledge to local staff or to adapt to local practices (Hailey, 1996). The performance of expatriates in overseas assignments has long been noted to fall short of expectations (e.g., Tung, 1987). If HCNs perceive expatriates as not necessarily performing better or as deserving higher pay, but see them as treated more favorably by nature of their nationality (Harvey, 1993), they are more likely to experience RD.

> *Proposition 5: When HCNs perceive pay discrepancies, they are also likely to feel relatively deprived.*

Cultural Effects on Experiencing RD

We propose that the national culture of HCNs has a pervasive influence on various stages of our model, particularly as a moderator of the relationship between comparing one's position/pay with that of expatriates and experiencing RD. We discuss in this section how culture influences both the meaning and importance of justice (Tyler et al., 1997). We also indicate for each aspect how culture influences justice perceptions and the experience of RD among HCNs.

Individuals differ in the extent to which they perceive and respond to RD. In other words, the "perceptual threshold for the violation of justice norms" (Schmitt & Dorfel, 1999: 452)—that is, *justice sensitivity*—tends to differ by individual. Justice sensitivity influences the likelihood of detecting unfair distributions, the probability of reacting to the unfairness, and the kinds of justice restoration efforts that the individual will adopt (Schmitt & Dorfel, 1999). Individuals high in justice sensitivity tend to react with greater resentment to deprivation of desired outcomes than individuals low in justice sensitivity. So

far, we have assumed that "Western" notions of justice motivate the HCNs in our conceptual model. Even though justice is, in fact, a "universal human concern" (Leung & Morris, 2000: 349), many scholars have rejected the assumption that all people have a common conception of and react to injustice similarly (see Farh, Earley, & Lin, 1997; Leung & Morris, 2000; and Tyler et al., 1997).

Researchers have found that different cultures vary in terms of justice sensitivity (Major & Deux, 1982; McFarlin & Sweeney, 2000). Evidence suggests that cultures have similar concerns for justice, but the meaning of the term may differ (McFarlin & Sweeney, 2000). In certain cultures justice may not be defined in terms of pay. For example, in feminine and collectivist cultures, justice is deemed as served if moral duties and interpersonal responsibilities are met. Hence, rewards such as recognition, status, and social support (see Tyler et al., 1997) may be of greater value to recipients than pay (Morris & Leung, 2000). Benefits, for example, may be seen as more desirable than pay in high-inflation nations, such as Russia, where currency has very little value and where employees value such things as food and consumables more than money. In such situations, HCNs may be less concerned with pay discrepancies and are unlikely to experience RD as long as the other benefits they receive meet their needs (Deutsch, 1985).

Similarly, the principles of justice, for example, may be culture specific (Leung et al., 1996). In collectivist cultures justice is deemed served if people are treated equally and rewards are distributed based on need. This is unlike individualistic cultures, where justice is based on the principle of equity (see McFarlin & Sweeney, 2000).

Whether or not injustice is felt or experienced as a result of RD also depends on what the focal person views as a legitimate input in the justice calculation. In collectivist societies, for example, an important input is a person's seniority in the organization, since it indicates his or her commitment and loyalty to a group or organization; in high power distance societies, status and position may tend to be regarded as credible (Komorita & Leung, 1985). In ascription cultures, where status is attributed based on who or what a person is (Parsons & Shils, 1951), attributes such as social class and race may be

regarded as legitimate inputs, whereas in achievement cultures, where status is accorded based on performance, individual accomplishments are primarily considered (Leung & Morris, 2000). In our model, HCNs may not necessarily view the greater individual contributions of expatriates as legitimate inputs worthy of greater rewards. Instead, things such as organizational tenure, loyalty, and social status may be given more weight. Thus, even if expatriates' performance and qualifications might deserve higher pay, HCNs may not necessarily perceive this to be so, and feelings of RD may follow.

Next, there is evidence that indicates that the importance of pay justice, or the extent to which it affects people's thoughts, feelings (e.g., anger; Leung & Morris, 2000), and behaviors (e.g., citizenship behaviors; Farh et al., 1997), varies across cultural groups. In high power distance and collectivist cultures, moral obligations and interpersonal responsibilities may be more important than justice considerations of individual rights. In addition, in low masculinity (high femininity) societies, material achievement and, hence, pay justice tend to be less important than things such as quality of life and quality of social interactions. Thus, calculations of pay justice among HCNs from such societies may occupy less of their cognitive resources.

The extent to which RD is accepted by the society also influences, first, whether or not upward comparisons are made and, second, whether pay disadvantages are salient. In high power distance societies, younger or lower-status employees are less likely to make social comparisons with older, higher-status workers in the organization, whereas in low power distance or egalitarian societies, employees are more likely to make social comparisons with others in higher-status dominant groups (Morris & Leung, 2000). Thus, if HCNs are from a high power distance culture, where large pay differences between high- and low-status employees are taken for granted and the high-status expatriate employees are seen as too different from them to have any basis for comparison, HCNs are less likely to compare their pay packages with expatriates (Leung et al., 1996). Hence, the pay discrepancy would be less distressing to them.

In sum, our model suggests a significant role of national cultures in the relationship between actual pay deprivation and HCNs' experience of RD about the pay differentials between themselves and their expatriate counterparts. We propose that culture influences how sensitive HCNs are toward injustice.

> *Proposition 6: The national culture of the HCNs moderates the relationship between the perception of actual pay discrepancies and the experience of RD resulting from choosing expatriate referents.*

Potential Behavioral Outcomes

Finally, we come to the proposed behavioral consequences of this perceived RD. When HCNs perceive pay disparity, they can always appeal to top management for redress, but this is unlikely to be successful in the short run. Ethnocentric compensation systems, still very much pervasive today, are unlikely to supply HCNs with the same rewards given to expatriates, even if they hold the same position in the organization and are similarly qualified. Furthermore, these differences in compensation arise largely because the expatriate is put on assignment and less so for any contributions rendered beyond what a HCN can provide. Hence, even if HCNs match performance or input levels of expatriates with the hopes of increasing their own rewards, it is unlikely that the MNE will supply them with a similar pay package.

Instead, we predict that HCNs are more likely to react to RD and attempt to restore equity by reducing their inputs in a variety of ways. These attempts are most likely to manifest themselves in a series of "withdrawal" behaviors, as HCNs attempt to remove themselves from the distressing situation. Specifically, HCNs may individually or collectively become unwilling to cooperate with expatriates, act contentiously and discriminate against expatriates, withhold citizenship behaviors, and increase absences and/or turnover (Scholl et al., 1987; Skarlicki, Folger, & Tesluk, 1999).

In any case, as noted by Black et al. (1998), when expatriates enjoy relatively high wages and standards of living, the perceived injustice by host country managers and employees can hurt an expatriate's ability to work effectively with the local staff. Adjustment to the host country situation is hindered if HCNs do not welcome the expatriate's presence and make little at-

tempt to befriend the expatriate or to go out of their way to help the expatriate, as is often needed initially (Florkowski & Fogel, 1999). The HCNs' friendship is vital in the expatriate's adjustment to the job and the organization, as well as his or her adjustment to the new host country environment. In addition, other extrarole behaviors, such as HCNs' cooperation and support and provision of needed information and cultural insights, are key to helping the expatriate adjust to the job and the organization (Black, 1990; Kraimer, Wayne, & Jarworski, 2001). Hence, the withdrawal of HCNs may ultimately adversely affect expatriates' speed of adjustment and their ability to perform their jobs effectively.

> *Proposition 7: When HCNs experience RD, they are likely to exhibit withdrawal behaviors, and, thus, expatriates are less able to adjust to the host country situation and perform their jobs effectively.*

THE NEED FOR A HOST COUNTRY PERSPECTIVE

This model has several potential contributions to both management practice and research on overseas assignments and social comparison. Incorporating social identity theories with social comparison theories adds to the existing understanding of the process of referent selection and its consequences. Our model also represents an initial attempt to integrate domestic research in these areas in a multinational context. Such an integrative approach may be applied fruitfully to any organizational context of interest, not only in a host unit context.

Existing IHRM studies have neglected the HCNs' role in the success of expatriate assignees, placing the burden largely on the expatriate. In many cases the expatriate is not solely or always at fault for failed assignments. Our model holds that expatriate HR practices (e.g., pay, staffing) may inadvertently create problems for the expatriate and the MNE by impacting HCNs' perceptions of pay justice. Clearly, the most obvious solution is to remove the distressing pay differential. A 1998 survey showed that many MNEs are "localizing" expatriates' pay to establish pay equity and good relations between expatriates and HCNs (Latta & Cummins, 1999). However, such a strategy is not always fea-

sible, particularly when the host country is far less developed and the local pay structure too low to provide any incentive for the expatriate to accept the assignment (Harvey, 1993).

Fortunately, existing research provides a few plausible alternative solutions. First, MNEs can try to reduce the salience of expatriates as a referent other. As noted, HCNs are unlikely to experience RD if the dissenting comparison is not made or is unimportant. Second, pay satisfaction is influenced by multiple comparisons (Scholl et al., 1987); MNEs can emphasize (by providing access to information) the advantage HCNs may have over other potential referents, such as other HCNs in local firms, other MNEs, or the pay that they received previously. Third, MNEs can convince HCNs that the expatriates' pay packages were fairly determined and that HCNs are not deliberately or onerously mistreated. Even when the outcomes the HCNs receive are low, if the HCNs perceive the procedures used to arrive at those outcomes as fair, they may be less inclined to react negatively to RD (Brockner & Wiesenfeld, 1996; Greenberg, 1990). Hence, any negative feelings that may arise from perceiving deprivation relative to expatriates may be minimized. In addition, perceived procedural justice also leads to other benefits for the organization (e.g., loyalty, performance of citizenship behaviors; Moorman, 1991). Hence, MNEs would do well to manage the justice perceptions of HCNs carefully.

LIMITATIONS AND FUTURE RESEARCH

As noted by several researchers, the utility of RD and equity theories to predict behavioral reactions is still somewhat questionable (e.g., Martin, Brickman, & Murray, 1984; Taylor & Moghaddam, 1987). Research findings about the reactions to injustice have been somewhat inconclusive. Hence, our model is limited by the state of the theories, and it will require modification as new findings and new theories come to light. Also, in this paper we have only discussed individual reactions to injustice perceived at a group level. Existing research has shown that collective action is probable when group identity is strong (Kawakami & Dion, 1993) and when individuals perceive that the ingroup as a whole is being treated unfairly (Vanneman & Pettigrew, 1972). Further, Leung and Stephan (1998) have suggested that culture influences the

kinds of response to injustice, whether behavioral, psychological, formal/informal, or at the individual or group level. Thus, there is a need for more work that considers other reactions to injustice.

Our model focuses only on expatriates as potential comparative referents, but it is clear that people tend to engage in multiple pay comparisons with different referents (Goodman, 1974; Ronen, 1986). In addition, our model includes only two groups of employees of MNEs: HCNs and expatriates. We do not incorporate third country nationals or other sources of personnel into the model. We would expect that if more third country nationals of various nationalities were found in the host unit, the likelihood of group categorization in terms of national origin would be less severe, since national group distinctions would be less clear. There is clearly a need for further research to expand the set of players involved in the MNE.

Finally, our model assumes that expatriate pay packages place expatriates in a significantly favorable position relative to HCNs. This may not always be the case. Even though surveys indicate that most U.S.-based MNEs continue to adopt ethnocentric expatriate pay practices, research on how different compensation approaches may influence the suggested processes and outcomes is needed.

CONCLUSION

The social, political, and economic environment in which international business exists has changed considerably. As a result, the problems of how to best assure the success of expatriate assignments have become more complicated. Specifically, in the modern world, HCNs are more and more likely to be well trained and well educated, and more likely to believe that they should be treated the same as an expatriate. Yet most research has continued to focus on policies and procedures designed to help attract expatriate assignees and compensate them for their "hardships." Unfortunately, many of these policies have the side effect of placing HCNs in a disadvantageous position relative to the expatriate. HCNs who become aware of this position and are sensitive to the differences and issues are likely to perceive inequity. Their reactions to that inequity (by exhibiting a variety of with-

drawal behaviors), in turn, are likely to reduce the effectiveness of expatriates.

We offer a model of HCNs' reactions to expatriate pay policies that attempts to make MNEs more aware of these issues. It is critical that global managers understand that some of the very practices they implement to help ensure the success of expatriates might actually work against these interests in the long run. It is clear that MNEs will require the cooperation and the commitment of a reliable cadre of local employees in order to succeed. But, until these organizations become truly global and design HR systems that do not violate the justice norms of local and foreign employees, these MNEs may have trouble obtaining the cooperation they need. We hope that our model and paper will help these firms to view HCNs as critical stakeholders in the organization and will help them to evaluate their practices in light of their impact on these stakeholders.

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