Why Local Adaptation Sometimes Fails to be Effective for MNEs: Exploring the Dynamics of Collective Bonuses, Egalitarianism, and Informal Norms

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Abstract

Past literature has documented the liability of foreignness (LOF) that foreign MNEs face when they introduce organizational practices abroad that work well in their home countries, particularly practices that conflict with local cultural norms. However, when foreign MNEs adopt practices that resemble those of their local counterparts, whether and why foreign MNEs still face a LOF is unclear. This study explores why foreign MNEs that implement a compensation practice used by local counterparts – collective bonuses – may not experience the same performance benefits. Our data consists of interviews and longitudinal survey data of the organizational practices of MNEs in France, a country where commitment to egalitarian resource distribution is culturally strong. We find that foreign MNEs, especially those from countries where egalitarian commitment is relatively low, benefit significantly less in terms of productivity when implementing collective bonuses than do their French counterparts. We show how even when foreign MNEs adopt local practices, they can subtly transfer the cultures of their home countries. In other words, they transfer informal, elusive norms (e.g., non-egalitarian attitudes of top management) that can be problematic. Tension persists between the informal requirements to facilitate the practice in the host country and the MNE's home-country culture, a core part of their tacit knowledge. It is one of the first pieces to show that imitating local practices may not suffice to reduce LOF because cultural conflicts make such imitation ineffective. Our findings shed light on how MNEs' cultural heritage can shape the effectiveness of their practices abroad.

Keywords: collective bonuses, egalitarianism, informal norms, liability of foreignness, local adaptation, multinationals

Introduction

It is well established in the literature that many foreign MNEs abroad face a disadvantage – a liability of foreignness (LOF) – vis-à-vis their local equivalents, that often stems from the additional challenges of transferring and adapting what works well in their home country to unfamiliar environments (Hymer, 1960; Zaheer, 1995). While most empirical studies on LOF focus on issues pertaining to the challenges linked to product or capital markets (Bell, Filatotchev, and Rasheed, 2012; Regnér and Edman, 2014), such as transferring technical knowledge to subsidiaries (Kogut and Zander, 1993) or gaining trust with local investors (Mäkelä and Maula, 2008), some work has also explored the LOF in terms of the organizational practices that foreign MNEs use, such as management methods or compensation practices. Prior literature highlights that foreign MNEs can face challenges when not conforming to local practices (Peng, 2002, 2003; Zaheer, 1995), sometimes even resulting in "an inability to function" (Ahmadjian, 2016, p. 23). For instance, various studies have documented the negative consequences that arise when MNEs implement organizational practices in their subsidiaries that work well in their home countries but clash with a host country's cultural norms (Brannen, 2004; Newman and Nollen, 1996; Siegel and Larson, 2009).

Overall, research suggests that when it's possible, foreign MNEs can overcome their LOF by blending in and using practices similar to those of their local counterparts, consistent with local cultural norms (Oetzel and Doh, 2009; Rosenzweig and Nohria, 1994; Salomon and Wu, 2012). First, doing so can help them avoid legitimacy issues that can come with being an outsider (Ghoshal and Westney, 2005; Saka-Helmhout, Deeg, and Greenwood, 2016; Salomon and Wu, 2012). Second, as foreign MNEs often employ many local employees that have internalized local cultural norms, practices that are in line with these deeply held values are deemed to be most effective; employees consider them fair, acceptable, and motivating (Newman and Nollen, 1996; Schuler and Rogovsky, 1998). However, we challenge the assumption that by mimicking practices of local firms, foreign MNEs will successfully overcome their LOF. Building on the literature that highlights how contextual factors can largely influence if the formal adoption of practices are successful or not (Fey *et al.*, 2009; Guzzo and Noonan, 1994; Ichinowski, Shaw, and Prennushi, 1997; Jiang *et al.*, 2017; Nishii and Wright, 2008), in this paper we explore why local adaptation sometimes fails to be effective for foreign MNEs.

We focus on analyzing the performance benefits of using collective bonuses by both foreign MNEs and French MNEs in the cultural context of France, where egalitarian commitment to wealth and benefit distribution ranks very highly compared to other countries[1] and is deeply embedded in the mentality of French employees (Price, 2014; Schwartz, 1994). Using longitudinal survey data from the French Ministry of Labor, which tracks the organizational practices of firms in France, we find that foreign MNEs, especially those from countries where egalitarian commitment is not valued, benefit significantly less than their French counterparts when implementing collective bonuses in France. We supplement our analysis with 50 in-depth interviews of employees working in France to unpack why a MNE's home-country commitment to egalitarianism plays a role in its successful implementation of collective bonuses in France.

Overall, we find that local adaptation promotes poorer operating performance on the part of foreign MNEs (relative to their local counterparts), in many cases because of conflict between the informal requirements to make a given practice succeed and the culture of the MNE's home country, a core component of its tacit knowledge. First, when MNEs come from countries that are less egalitarian, they have more trouble maintaining a coherent egalitarian environment – there tends to be inconsistency within the subsidiary of an egalitarian practice (collective bonus) and a generally non-egalitarian mentality (the remarks and actions of top management and the symbols they employ). Second, these MNEs have more difficulty maintaining a calm and cohesive social environment in a strongly egalitarian country. This becomes an issue, as collective bonuses tend to work best in settings where people feel united.

Our findings contribute to the literature in multiple ways. First, we contribute to the LOF literature by providing a novel explanation of why LOFs aren't always mitigated when firms adopt local practices. Specifically, we explain various ways in which being poorly attuned to informal norms can be an issue even when a foreign MNE blends in on the surface (adopts local formal practices). Second, this is one of the few studies that explores how MNEs' home country cultures can impact the effectiveness of their behaviors in foreign markets. We contribute to the literature by shedding light on cultural concepts (home country commitment to egalitarianism) that MNEs transfer to their subsidiaries, and on why such concepts play a role in their LOF even when they mimic the practices of local firms. We show how even when subsidiaries of foreign MNEs adopt practices similar to their local counterparts (Rosenzweig and Nohria, 1994; Zaheer, 1995), they can subtly transfer the cultures of their home countries. In other words, they transfer informal, elusive norms (e.g., non-egalitarian attitudes of top management) that can be problematic. Finally, our findings contribute to the literature on how more contextual factors – those that transcend mere implementation of a practice – can shape the benefits of organizational practices (Guzzo and Noonan, 1994; Ichinowski *et al.*, 1997; Jiang *et al.*, 2017; Takeuchi, Chen, and Lepak, 2009). In France, implementing an egalitarian compensation practice without a consistent egalitarian mindset has turned out not to be enough.

Facing a Liability of Foreignness: Is Blending in Enough?

It is well established in the literature that many foreign MNEs face a liability of foreignness relative to local firms (Hymer, 1960; Zaheer, 1995). Much of this disadvantage comes from having to transfer or adapt what works well in their home country to unfamiliar environments. Thus, foreign MNEs face additional barriers, such as transportation costs of products or knowledge as well as outsider costs of not knowing local cultural norms and not being embedded in local institutions and social networks (Mezias, 2002; Rangan and Drummond, 2004; Salomon and Wu, 2012; Zaheer and Mosakowski, 1997). Most empirical work on the LOF tends to focus on the challenges pertaining to product or capital markets (Bell *et al.*, 2012; Regnér and Edman, 2014) such as having to transfer technical know-how to subsidiaries (Kogut and Zander, 1993) or gaining insight into local capital markets (Miller and Parkhe, 2002). However, there is also some evidence that foreign MNEs may face challenges when it comes to the organizational practices they use in their subsidiaries, such as management or compensation practices (Zaheer, 1995). Work in this area has generally suggested that, when possible, mimicking organizational practices that are prevalent in a host environment will help foreign MNEs overcome a LOF for two main reasons (Oetzel and Doh, 2009; Rosenzweig and Nohria, 1994; Salomon and Wu, 2012).

First, institutional theory literature focusing on MNEs highlights that, by adopting practices that local firms are using (local isomorphism), foreign MNEs can gain legitimacy in the eyes of various local stakeholders, including local governments, customers, unions, and employees (Ghoshal and Westney, 2005; Saka-Helmhout *et al.*, 2016; Salomon and Wu, 2012). Though it may entail internal challenges, blending in, particularly in terms of organizational practices, is assumed to ease "outsidership" (Johanson and Vahlne, 2009; Vahlne, Schweizer, and Johanson, 2012) issues such as difficulty recruiting local talent and backlash from local government or worker groups (Gálvez-Muñoz and Jones, 2005; Guillén, 2000, 2003; Hijzen *et al.*, 2013; Newburry, Gardberg, and Belkin, 2006).

Second, because foreign MNEs often employ locals who have internalized prevailing cultural norms, practices in line with these norms tend to be deemed effective and appropriate management and motivation tools (Newman and Nollen, 1996; Schuler and Rogovsky, 1998). Cultural norms – conceptualized as meaning systems that capture the "shared cognitions, values, norms, and expressive symbols" (DiMaggio, 1994, p. 27) that members of a society use to make sense of how the world works and to guide their actions – are thought to shape which organizational practices are considered rational, acceptable, and fair. Practices that are in line with prevailing belief systems and assumptions are apt to be positively received, to elicit commitment to the practice, and to have the desired effects (Boxx, Odom, and Dunn, 1991; Caramelli and Briole, 2007; Parks and Guay, 2009; Posner, 2010; Schwartz, 1999; Wiener, 1982).

In fact, foreign MNEs implementation of organizational practices that are not customary in host countries, and that potentially clash with local cultural norms, has been shown to have negative consequences for productivity and performance. This occurs largely because, when "practices are inconsistent with these deeply held values, employees are likely to feel dissatisfied, distracted, uncomfortable, and uncommitted. As a result, they may be less able or willing to perform well" (Newman and Nollen, 1996, p. 755). For example, Siegel & Larson (2009) found that in highly egalitarian countries, subsidiaries of a US MNE had difficulty implementing individualized pay-for-performance practices, such as piece-rate and discretionary bonuses; these practices worked well in the home country. Similarly, the US MNE Disneyland, faced backlash in France when implementing its customary human-resource-management practices, such as asking employees to dress “wholesomely” and to smile; in France, where “freedom of dress and personal expression are highly valued” (Brannen, 2004, p. 610), such policies were viewed very negatively. Likewise, foreign subsidiaries of a US MNE performed worse when organizational practices such as employee participation and merit-based compensation practices weren’t in line with the cultural values of the host country (Newman and Nollen, 1996). These findings suggest that foreign MNEs can avoid such difficulties by adopting practices consistent with local cultural norms and similar to those of their local counterparts.

Recent studies, however, have pointed out that it is not always easy, or even possible, for foreign MNEs to mimic local practices, mainly due to the complexity of operating in multiple cultural environments (Cantwell, Dunning, and Lundan, 2010; Geary and Aguzzoli, 2016; Kostova, Roth, and Dacin, 2008; Orr and Scott, 2008; Stevens, Xie, and Peng, 2016; Yildiz and Fey, 2012). In certain cases, foreign MNEs may adopt other strategies to overcome their LOF. For example, Newenham-Kahindi and Stevens (2018) found that when the norms, values, and beliefs of the host country were in conflict with local norms, it was impossible for MNEs to adopt local practices, such as decision-making processes. Instead, they document how MNEs entering Sub-Saharan Africa worked with local institutions to co-create new locally acceptable practices and norms. Similarly, Fey and Denison (2003) showed that instead of adopting local practices, foreign MNEs in Russia sometimes sought out workers who would willingly adopt the MNEs’ preferred practices.

Ahmadjian (2016) also suggests that figuring out which local practices to adopt and which to deviate from is a delicate problem. Often, “to gain acceptance and legitimacy, but also preserve comparative institutional advantage” entails toeing a fine line (Ahmadjian, 2016, p. 13). While these studies do not explore the outcomes when foreign MNEs *do* adopt local practices – but rather highlight alternative approaches to overcome LOF – they open up the idea that blending is not always straightforward. It implies that there are bound to be errors when adopting local practices, possibly leading to negative performance.

Building on this notion, we explore why even when foreign MNEs do locally adapt their practices, it can sometimes be unsuccessful. To gain further insights, we turn to the literature that emphasizes that contextual factors can largely influence the successful adoption of practices. Namely, we suggest the interaction of foreign MNE subsidiaries’ informal cultural norms (that they bring from their home countries) with the formal local practices that they adopt can play an important role.

Contextual Factors – What Else Matters when Blending In?

Even when foreign MNEs do blend in and formally adopt local practices, the strategic HRM literature suggests that highly nuanced factors may affect the performance benefits of doing so. Specifically, this literature highlights that contextual factors, beyond the implementation of a practice, can play a critical role. How HR practices are perceived, interpreted, and experienced (rather than just the presence of the practice) can largely influence employee behavior and performance outcomes (Aryee *et al.*, 2012; Den Hartog *et al.*, 2013; Guzzo and Noonan, 1994; Jensen, Patel, and Messersmith, 2013; Liao *et al.*, 2009; Nishii and Wright, 2008).

For example, Jiang *et al.* (2017) found that how managers and co-workers communicated about certain HR practices, and the implicit cues they sent about these practices, could influence employees to perceive very differently how skill-enhancing, motivation-enhancing, and opportunity-enhancing particular compensation practices, training programs, and approaches to performance management were. Likewise Ichinowski, Shaw, and Prennushi (1997) highlighted that factors such as not having coherent and complimentary practices or mistrust between management and employees could result in the same HR practices having very different performance benefits. Similarly, various studies have pointed out how historically and culturally rooted norms can strongly influence how practices are interpreted, and ultimately shape the effectiveness of these practices (Paauwe and Farndale, 2012; Pistor, Raiser, and Gelfer, 2000; Schneider and Barsoux, 2003). For instance, Fey et al. (2009) showed how extensive internal communication practices brought less performance benefits in Russia, than in the US or Finland; accustomed to secrecy, Russians interpreted open communication warily.

Overall, these studies highlight that there can be significant *performance variance* when adopting the *same organizational practices* because more nuanced contextual factors can shape how employees perceive, interpret, and experience the practices. Building on these insights, we challenge the assumption that if MNEs can adopt local practices, they can automatically mitigate their LOF. Namely, we suggest that when foreign MNEs have difficulty understanding and implementing the informal cultural requirements of making a practice succeed in the host market, blending in and formally adopting local practices may not be enough. As MNEs are embedded in their home country's cultural norms and values, the more informal, subtle cultural norms of local environments can be difficult to grasp or even conflict with their home country cultural norms. To further explore the dynamics of why adoption of local practices sometimes fails to be effective for MNEs and the role of informal norms, we focus on the practice of collective bonuses.

The Benefit of Bonuses: What Does Culture Have to Do With It?

Over the past 30 years organizations across the world have increasingly implemented pay-for-performance compensation practices (Bandiera, Barankay, and Rasul, 2007; Bayo-Moriones, Galdon-Sanchez, and Martinez-de-Morentin, 2013; Cuñat and Guadalupe, 2009). Having part of an employee's salary dependent on individual or collective performance is thought to reduce the classic agent-principal problem, where employees in the organization may have goals and incentives that are not necessarily aligned with those of the broader organization. Such variable pay has been associated with increasing employee incentives to work harder for the benefit of the organization (Prendergast, 1999).

While individualized bonuses tend to be the most popular form of pay for performance compensation and numerous studies have identified its positive effects on employee productivity (Lazear, 2000; Milkovich, Newman, and Milkovich, 2002), there is also evidence that individual bonuses sometimes bring unintended, negative consequences. These include employees only focusing on tasks linked to monetary reward, "gaming" the system such as lowering pricing and timing of closing deals in order to reach commission levels (Larkin, 2014), and overlooking safety standards (Freeman and Kleiner, 2005). Individualized bonuses have also been shown to be detrimental to team spirit, cooperation, and collaboration within organizations (Drago and Garvey, 1998; FitzRoy and Kraft, 1995; Pfeffer and Langton, 1993). Not only may "individuals focus on their own performance to the exclusion of organizational goals" (Bloom, 1999, p. 28), but the potential large pay disparity within organizations can result in feelings of injustice, dissatisfaction, and competition. To avoid such a "dysfunctional individualism" (Geary, 1992, p. 47), organizations sometimes choose to also include *collective bonuses* in their compensation scheme (Gerhart, Milkovich, and Murray, 1992; Larkin, Pierce, and Gino, 2012).

Collective bonuses – dependent on the performance of groups or even the overall organization as opposed to individual performance – have also been shown to bring many benefits including increases in productivity, job satisfaction, and collaboration (Boning, Ichniowski, and Shaw, 2007; Griffith and Neely, 2009; Hamilton, Nickerson, and Owan, 2003; Hansen, 1997; Jones and Kato, 1995; Knez and Simester, 2001; Kruse, 1993). For example, Bandiera et al. (2007) found that incentivizing managers in a fruit picking firm with bonuses based on team performance had a positive effect on productivity. Similarly, Knez & Simester's (2001) study of Continental Airlines found employee bonuses based on organization-level performance to result in positive performance outcomes. In addition to monetary rewards, collective bonuses can motivate employees to work for a collective goal by enhancing their sense of participation in a group and desire to work hard for their peers (Hamilton *et al.*, 2003; Mas and Moretti, 2009).

Collective bonuses, however, also present challenges for organizations. A major issue is *free riding*, or slacking off in the expectation that one's colleagues will work hard enough to reach collective goals (Alchian and Demsetz, 1972). Scholarly work has shown that, in the presence of strong team-spirit norms, shame/guilt and mutual monitoring reduce free riding (Ichniowski, Shaw, and Prennushi, 1997; Kandel and Lazear, 1992). Overall, collective bonuses tend to work best in environments where people feel interdependent and united.

Numerous structural factors – notably union power, the size of the firm, and government tax subsidiaries – shape the benefits that bonuses confer (Bayo-Moriones *et al.*, 2013; Bryson *et al.*, 2012; Origo, 2009). A large body of research confirms that cultural norms of a country also play an important role in what types of compensation practices are deemed appropriate and preferable (Hofstede, 2001; Kirkman, Lowe, and Gibson, 2006). Strong correlations have been found between the prevalent cultural norms in a country and the types of compensation practices that are used (Greckhamer, 2011; Kirkman *et al.*, 2006; Pennings, 1993; Tosi and Greckhamer, 2004). For instance, pay-for-performance is more widespread in more individualistic countries (Schuler and Rogovsky, 1998). The cultural norm of egalitariansm – defined as "the belief that all people are of equal worth and should be treated equally in society" (Schwartz, 2001, p. 65) – has been identified as influential in compensation dynamics (Levine, 1993; Siegel, Licht, and Schwartz, 2013).

In highly egalitarian societies, people are generally committed to the welfare of others and value equality and social justice. People believe that there are unavoidable interdependencies among individuals and in order for societies to function well, cooperation, caring for others, and reducing inequalities are necessary. Thus resources tend to be shared with the unemployed, the elderly, and those in need. Similarly, they tend to have strong legal protections for workers and powerful worker groups, such as unions (Schwartz, 1994). Because of this commitment to equality and the perceived unfairness of select groups holding all resources, in more egalitarian countries compensation practices that promote lower pay disparities within the organization, such as collective vs. individual bonuses or lower CEO/employee pay ratios, are preferred and more used in organizations (Fischer and Smith, 2003; Levine, 1993; Siegel and Larson, 2009; Siegel *et al.*, 2013). However, besides influencing the *use* of such compensation practices, we know little about how a country's commitment to egalitarianism may shape other, more nuanced aspects of whether the practice is a success. For example, in egalitarian societies, while collective bonuses may be preferred to individualized bonuses, we know little about whether there are other nuanced factors (e.g., informal norms, etc.) that could influence the success of collective bonuses in an egalitarian society.

To explore the dynamics of egalitarianism, bonuses, and possible persistent disadvantage for foreign MNEs even when using practices that align with a host country's egalitarian norms, we turn to the setting of our study, France. In a country where egalitarian commitment to wealth and benefit distribution ranks very high compared to other countries and is deeply embedded in the culture, we explore the more nuanced factors that shape the success of bonuses and why foreign MNEs (vs. French MNEs) may be at a disadvantage when using such bonuses.

Egalitarianism and France - the relationship with pay-for-performance (Collective vs. individual bonuses)

France is considered a country where egalitarian commitment is quite strong, ranking relatively high on Schwartz's egalitarian index that ranks 55 countries (Schwartz, 1994). France's prioritization of egalitarianism is similar to that of a group of 20 countries (such as Norway, Denmark, Chile, Argentina, Canada, and New Zealand) representing different regions around the world and including economies both large and small. France's emphasis on striving for equality, particularly in terms of wealth distribution and benefits, is evident in many realms of French society. For example, compared to other countries in the OECD, income inequality is relatively low in France, measured by the income ratio of the wealthiest 10% to poorest 10% (OECD Income Distribution Database, 2016). Similarly, free university-level education, universal health care policies, high unemployment benefits, and strong worker rights embody the value attributed to equal rights, opportunities, and benefits for all members of a society (Price, 2014). Laws pertaining to profit sharing within companies also demonstrate the egalitarian mentality in France. For example, for firms with more than 50 employees, profit sharing became mandatory in the 1990s with the goal of promoting equality and redistributing wealth (Bryson *et al.*, 2012).

Subtler manifestations of egalitarian mentality include negative reactions to open displays of wealth and allusions to one's high income. It is important to note, however, that unequal *cultural* capital is quite noticeable and acceptable. The value attributed to equality in terms of social benefits and wealth distribution in French culture does not diminish differentiation by power and status, particularly based on educational attainment and hierarchical rank (Barsoux and Lawrence, 1990; Bourdieu, 1986; Crozier, 1994; d'Iribarne, 1989; Maurice, Sorge, and Warner, 1980).

The first author, who has in-depth experience living in France and has spent over 6 years there since the start of the project, also conducted 50 interviews with individuals working in various types of firms in France, including both French and foreign MNEs. In total, the interviewees had worked at 167 firms, in positions ranging from CEO to non-managerial; some were French citizens, others expats. Interviews lasted for approximately 1 hour and remained generally open-ended, with a focus of understanding internal organizational practices and challenges at the firms where they worked. (See Table I for details of interviewees).

INSERT TABLE I ABOUT HERE

The mentality of equality with regards to monetary distribution was quite evident in the interviews. Managerial interviewees described having faced challenges when implementing individualized bonuses or rewards. For example, a CEO of a British MNE described how, in France, the idea that "different people deserve different treatment", or pay, based on their individual performance was often interpreted as being unfair:

> The thing it [an individualized bonus] clashes with potentially in France depending on how it's done…is this sense of fairness and I think people in France at times confuse fairness and equality…or the same for all…the same for all is not fair…they would go for equality and what we want to do here is *équité* [fairness] …and this is where it may clash at times because you need to be quite convincing in helping people realize and fully appreciate the fact you are doing what's right…I have dealt with this constantly… there is that sense that it should all be the same for everyone… (Interview 10)

Some interviewees noted that as equality was highly valued, the sense of collectivity prevalent in France differed somewhat from their experiences in other countries. In the words of one interviewee: "Here it's more team, more collective. The individual interest for me goes through the collective interest. If we don't succeed collectively it's very difficult to succeed individually" (Interview 15). Another interviewee described his experience in France:

> I think there is more of a sense of collective than individuality…so culturally the US would be considered more individualistic or perhaps the UK to some degree…the French…if some individuals were missing out they would campaign for workers… they do act collectively more readily than in other cultures…for instance on the sales bonus side we have certain individuals who are missing out because they missed their targets and it may well be that unions become involved in that kind of discussion and advocate for the people missing out and possibly at the expense of those who have done exceptionally well. (Interview 11)

Even though the majority of interviewees noted that individualized bonuses were part of the compensation structure in their organization, many also explained how such bonuses became an "expected part of salary…irrespective of performance" (Interview 11) or an "acquired right" (Interview 21). Thus, even if individualized bonuses were not particularly motivating, taking away individualized bonuses once they were given was very difficult and could end in "people fighting and people complaining" (Interview 14).

Similar to how interviewees noted the conflict of individualized bonuses with the egalitarian mindset in France, and the difficulties that arose from this, past work has suggested that if organizational practices are in line with cultural norms, they will be more efficient in terms of performance outcomes (Caramelli and Briole, 2007; Newman and Nollen, 1996; Schuler and Rogovsky, 1998; Siegel and Larson, 2009). First, such practices "yield predictable behavior and performance…because congruent management practices are consistent with existing behavioral expectations and routines" (Schuler and Rogovsky, 1998, p. 161). For example, when practices are aligned with what employees consider "good, right, and desirable" – shaped by cultural norms – they tend to be more motivating and thus more effective (Schwartz, 1999, p. 25). Employees are more likely to deem such practices as fair and be more committed to the practices and organization (Caramelli and Briole, 2007). This results in tangible performance benefits (Levine, 1993). Also, "employees are not distracted from work performance by management practices that ask them to behave in ways that are [in]consistent with extant national cultural values" (Newman and Nollen, 1996, p. 755).

To first confirm in our setting past theory that suggests that organizational practices in line with the cultural norms of a country tend to work better, given the cultural emphasis on equality in France, we hypothesize that collective bonuses in France will bring greater benefits than individualized bonuses for both French MNEs and foreign MNEs:

H1: The productivity and profitability benefits to firms of collective bonuses will be higher than those of individualized bonuses for French and foreign MNEs located in France.

Adopting egalitarian practices…but what about the informal norms and requirements? - Foreign multinationals and collective bonuses in France

While we expect collective bonuses to work better than individualized bonuses in the cultural context of France, our interview data suggests that foreign MNEs, especially those from less egalitarian home countries, may still be at a disadvantage (vs. French MNEs) when using collective bonuses. We found that foreign MNEs had more difficulty understanding and implementing some informal requirements potentially needed for the successful implementation of collective bonuses in France.

We identified two main barriers that foreign MNEs encountered. First, they had more trouble maintaining *a calm and cohesive social environment*. As collective bonuses tend to be more effective when people feel interdependent and united (Bloom, 1999; Hamilton *et al.*, 2003; Ichinowski *et al.*, 1997; Kandel and Lazear, 1992), tense environments could impact their effectiveness. Second, foreign MNEs had more trouble maintaining a *coherent egalitarian environment*. Inconsistencies flared between the egalitarian practice of collective bonuses and informal realities within such companies. Because practices tend to work best when prevailing rhetoric matches practices, and vice-versa (Bowen and Ostroff, 2004), such incoherence could erode the benefits of collective bonuses. We explore these two barriers in further detail.

Trouble Maintaining Calm and Cohesive Social Environment

The compensation literature has highlighted that collective bonuses work best in settings where there is a sense of cohesiveness, or togetherness, in the team or organization. When team spirit and loyalty towards the organization and management is high, this helps with the issue of free riding, a major concern with collective bonuses. As people feel accountable and empathetic to each other, they are more likely to feel guilt and shame when not doing their part, even when no one is observing their efforts (Hamilton *et al.*, 2003; Ichinowski *et al.*, 1997; Kandel and Lazear, 1992). In addition, when there is an environment of tension, mistrust, or competition, people don't feel they share a common purpose; thus, it becomes difficult for collective bonuses to promote collaboration or cooperation, some of its main benefits (Bloom, 1999). Overall, this literature suggests that the performance benefits of collective bonuses are more fully realized in organizations where, for example, management, employees, and labor unions feel unified as opposed to an "us versus them" mentality.

Many interviewees at foreign MNEs reported, however, that maintaining a united and cohesive environment, especially with the labor unions, was a struggle in France. For their firms, unaccustomed to dealing with unions, the cultural nuance was difficult to grasp; they acknowledged its importance, however, especially when it came to compensation practices. Interviews with employees working for foreign MNEs often suggested that "in France there is a much stronger union culture" (Interview 12) than in the home countries of their company. It was not easy and oftentimes "complex" (Interview 19) to understand the nuances of French labor relations and the worker mentality on compensation. For example the COO of the French subsidiary of a British MNE explained that "developing relationships" with union leaders and the workforce played an important part in the success of compensation practices, something that they were not used to doing in their other major subsidiaries, and how it was not easy:

> We are very wary of changing pay structures in France more so compared to other places…it becomes an issue…it becomes a union issue, then it becomes a negotiation… and you would not expect that in the US…it would not be a union issue and that happens [in France]… (Interview 11)

Similarly, a manager of a US MNE explained that "if you don't get the labor union…on board [with any HR function such as compensation practices], it can be very miserable" but "it's very new [for the US company]…they know more now…but it's still complicated" (Interview 14). Likewise, a German manager working for the subsidiary of a German MNE in France found that "the discussion that the workers council have with the rewards team and the compensation teams" was often "grinded to a halt because there is this mistrust" (Interview 13). Some interviewees described the relationship between unions and management as a "battlefield" (Interview 12).

Even when foreign MNEs in France hired French employees and managers, whose cultural knowledge would presumably help maintain calm social climates and facilitate implementation of compensation schemes, interviewees noted that few were granted sufficient "flexibility" (Interview 15) to maintain a favorable social climate. For example, it was sometimes a struggle even to convince headquarters that more time and resources were needed to work with French unions. As one employee of a German MNE in France expressed: "If you have a decision that is taken by headquarters…sometimes I had to explain to my headquarters I cannot apply this in France overnight because it will take time [to work with work councils, employee representatives, unions]" (Interview 19). Another manager working for a US MNE expressed that even though he thought maintaining a cohesive spirit was "motivationally" very important in France – "I think…you take them out for team lunch, and throw in a bottle of champagne to celebrate wins, it motivates more than if you give them bonus at the end of the year" – he also noted that he didn't think HQs would "change [such policies] specifically to France" (Interview 21).

Interviewees with experience in French MNEs noted that working with unions was also sometimes "difficult" (Interview 12) for French MNEs. However, top management was very aware that without "confidence from work councils, the trade unions" when it came to compensation decisions, employees would not "trust the company anymore" (Interview 15). Thus, top management of French MNEs were often very involved in maintaining "the social harmony of the company" (Interview 34) and were willing to spend the time and energy to do so.

<u>Trouble Maintaining a Coherent Egalitarian Environment</u>

Past work has shown that coherence and consistency between HRM practices and informal norms – such as managerial discourse and organizational culture/climate – can have a meaningful positive impact on such practices' performance benefits. The evidence suggests multiple reasons. People prefer consistency because it tends to be less mentally draining to interpret messages and practices and because it reduces ambiguity in organizational life. Employees also view the organization as more credible when there is coherence (Bowen and Ostroff, 2004; Chan, Shaffer, and Snape, 2004; Wei *et al.*, 2008). In fact, incoherence can lead to "confusion, disillusionment, or other negative reactions…and employees may have negative attitudes" (Bowen and Ostroff, 2004, p. 214). This can have important performance implications such as misinterpretation, low productivity, and low effectiveness of practices.

Interview data revealed that foreign MNEs in France oftentimes had difficulty maintaining a coherent egalitarian environment; although they often used egalitarian friendly compensation practices (collective bonuses), the more informal customs around compensation were not always aligned. Top management's mentality and actions were sometimes at odds with the egalitarian spirit; top executives had not necessarily internalized such notions. Similarly, they could be oblivious to the nuances of addressing subjects like money and motivation in an egalitarian manner.

<u>*Inconsistency between an egalitarian compensation practice and the mentality / actions of top managers*</u>

While the majority of foreign MNEs utilize collective bonuses in France[2], interview data revealed that many times, top management did not necessarily understand or believe the notion that the "same for everyone" (Interview 10) could be motivating. This scenario was especially prevalent at MNEs whose home countries exhibit low egalitarian commitment, such as the US; the non-egalitarian home-country mentality was often in evidence at the French subsidiaries. Thus, though collective bonuses aligned with France's strong egalitarian culture, the attitudes and actions of top management did not always promote egalitarian notions. These inconsistencies were sometimes a source of tension. For example, a manager at a US MNE described his surprise and frustration at an employee's reaction to being given a raise:

> I gave a nice raise to one of my team members…she said something like…"That's fine as long as I am paid in line with the team…it's fine to me"…which is a very strange comment to me…it's almost like make sure you don't overpay me…I've heard it from a couple others as well… "If I am in line…not overpaid, not underpaid…I'm fine with it" spirit… (Interview 21)

Similarly, interviewees explained how even little signs of inconsistency with the notion "we all earn good, we all have a good life" were "not appreciated" by employees. A manager at a US MNE described:

> We went through a year we had a lot of cost cuts…and the CFO has a super nice car…and the talks start coming…why is he paid much more, why does he have a nice car…we need to cut costs. (Interview 21)

Some top managers noted that consistency between practices and the "small things which are really showing your value and vision" such as the words you use were extremely important, particularly when it came to compensation practices: "It's really in small things that you see that you are congruent" (Interview 15). They noted that "inconsistency" (Interview 10) on such matters could "destabilize the ambiance of the company" (Interview 34) and lead to "a lack of trust" (Interview 10) by employees.

Less understanding of the cultural nuances of motivation and money in France

Foreign MNEs also seemed less attuned to the "small things" that were important in the highly egalitarian culture of France when it came to motivating employees with monetary rewards. For example, French interviewees noted that in general, talking about making a lot of money was seen as "not noble" (Interview 4) or "rude" (Interview 18) in France. In fact, "entrepreneurs who make a lot of money are not celebrated in France" (Interview 18) and even very wealthy families that owned large multinationals in France did not "show signs of wealth" as it "might be indecent to French people" (Interview 2). Because of this, instead of trying to motivate employees by talking about making lots of money in their strategic plans, owners of French MNEs would focus on "the number of jobs they would provide" (Interview 2).

By contrast, in US MNEs, interviewees described that it was very different, a much more "American" (Interview 14) approach, where similar to a US mentality, managers emphasized the idea "if you earn money you are a great guy." Thus managers more "openly" (Interview 18) talked about money as a motivational tool. For example, top management would try to motivate French employees by talking about "key indicators or KPIs we need to hit to get the bonus" and tell them to do "their best to hit the base cost number, the revenue." The same interviewee also commented, "I'm not sure it's working that well in France" (Interview 21).

In summary, interviews highlighted that foreign MNEs had more trouble both maintaining a cohesive social environment and maintaining a coherent egalitarian environment. As these contextual factors can potentially shape the effectiveness of collective bonuses, we expect that foreign MNEs will see less productivity and profitability benefits than French MNEs from the use of collective bonuses in France.

H2: The productivity and profitability benefits to firms of using collective bonuses will be higher for French MNEs than for foreign MNEs in France.

While we hypothesize that foreign MNEs will in general be at a disadvantage compared to French MNEs in using collective bonuses, interview data also suggested that the egalitarian norms of a foreign MNEs' home country may also play a role; these norms were subtly present in the French subsidiaries (e.g., US MNEs exhibited an "American" mentality about money; top managers at British and US MNEs maintained that "the same for all is not fair").

Both French and non-French interviewees who had worked at French and foreign firms in France noted that companies' home-country cultures were often palpable. As an interviewee who had worked for both Dutch and American MNEs in France put it:

> Somehow the culture of your mother company…part of their [MNE headquarters'] culture came down to [influence] the way people were working [in France] also…there is some kind of transfer. (Interview 35)

Thus foreign MNEs from countries less committed to egalitarianism may be more prone to inconsistency (e.g., collective bonuses alongside non-egalitarian discourse and symbols) and to deviation from informal egalitarian French norms about money and motivation. Their HQs may also be less likely to realize the importance of maintaining a calm social climate with unions in order to have a collective spirit within the company. Thus we hypothesize that foreign MNEs from egalitarian-minded countries will be better equipped to reap the benefits of collective bonuses in France.

H3: Foreign MNEs from countries where egalitarianism is highly valued will see higher productivity and profitability benefits from the use of collective bonuses in France than will MNEs from countries where egalitarianism is less highly valued.

Setting

To test our hypotheses, we analyze the compensation practices that MNEs, of both French and foreign origin, located in France use and observe how changes in these practices impact firm profitability and productivity.

Data

Data on the types of organizational practices that firms in France use comes from the ER survey (L'enquete REPONSE: Relations Professionnelles et Negociations d'Entreprise), a detailed survey that is administered by DARES, the research and statistics unit of the Ministry of Labor in France. The surveyors visit ~3000[3] randomly selected non-agricultural establishments with more than 11 employees that are registered in France; senior managers and labor representatives are questioned about the internal organization of the firm and about labor relations. A random sample of employees from each selected firm is also sent questionnaires by mail. The survey questions for senior managers, labor representatives, and employees differ; because questions about the internal organization of the firm are mostly concentrated and detailed in the survey administered to senior managers, this paper focuses on the responses provided by the senior management. The survey, initiated in 1993, is conducted every 6 years (1999, 2005, 2011). This study utilizes data from the past three surveys, starting in 1999.[4] For profitability and productivity data of these firms, we used several other datasets collected by the French government[5]. These include:

> FICUS (Fichier de comptabilité unifié dans SUSE): The majority of the financial and employment information on firms prior to 2008 comes from the FICUS data. This data source contains detailed firm-level accounting information, including sales, income statement, balance sheet information, and employment numbers, all declared annually for tax purposes.
>
> EAE (Enquete Annuelle d'Entreprise): The financial data contained in FICUS is supplemented with EAE prior to 2008. EAE provides firm-level financial data with more detailed information on such expenses as advertising and IT. Over 150,000 firms operating in France with more than 20 employees and more than $5 million dollars in revenue are randomly surveyed on an annual basis.
>
> FARE (Fichier approché des résultats Esane): The majority of the financial and employment information on firms after 2008 comes from FARE. This dataset replaced the FICUS dataset post-2008. It contains detailed firm-level accounting information, including sales, income and balance-sheet statements, and employment numbers, all declared annually for tax purposes.

EAP (Enquête annuelle de production)/ESA (Enquête Sectorielle Annuelle): The financial data contained in FARE is supplemented with EAP and ESA data post-2008 (replacing EAE after 2008). Like EAE, these datasets provides more detailed information on firm expenses (such as advertising expenses). Firms in France are randomly surveyed on an annual basis.

The ER survey data was combined with the multiple datasets containing financial information at the firm level[6]. To have a direct apples to apples comparison, our sample consists of French and foreign MNEs. We focus on MNEs in the data set that have 50 or more employees. This latter point is important since French labor law is meaningfully different for firms with under 50 employees[7], EAE data is spotty for firms with employees fewer than 50 employees[8], and hence prior studies using the ER survey have dropped such firms (see, for example, Sengul and Gimeno 2013). Also, to create a longitudinal panel dataset of MNEs necessary to look at the effect of changes in pay-for-performance practices over time, we limit our sample to MNEs that appear at least twice between 1999 and 2011. 410 MNEs appear more than once over the time period 1999-2011. The sample restricted to MNEs that appear twice approximates the sample that includes all MNEs that ever appeared in the survey at least once on profitability and various other measures[9]. Our final panel data set has 940 firm-year observations and three observation periods during the timeframe 1999-2011 (surveys conducted in 1999, 2005, 2011).

Measures

Nationality of MNEs. As the benefits of collective bonuses is thought to vary depending on whether a firm is a French MNE versus a foreign MNE as well as the nationality of the foreign MNE, we divide the sample of firms into the subgroups of multinational French firms and foreign multinational firms (with their corresponding nationalities). To determine the nationality of MNEs located in France, we use supplemental data on global ultimate ownership collected from the Bureau Van Dijk's Amadeus database[10]. For MNEs that did not have information in Amadeus, we used information drawn from answers to a question on the ER survey about the identity of the majority shareholder[11]. For additional information on ownership that was not available in Amadeus or the ER survey, data was hand-collected from company websites/company documents. MNEs were considered French multinationals if they had an operating subsidiary in a country outside of France. The distribution of MNEs is as followed: 331 firm-year observations of French MNEs, and 609 firm-year observations of foreign MNEs.

Firm productivity and profitability. The first approach is to run a productivity equation where log of gross profit will be regressed on capital and input costs. Log of gross profit is a traditional dependent variable for a direct, reduced-form productivity equation. Gross profit, defined as revenues minus the cost of purchased inputs, is a conventional and standard measure in labor economics of a company's value-added. It is thus accordingly used as a conventional dependent variable for assessing productivity (Mohrenweiser and Zwick, 2009, Siegel and Larson 2009). For that type of specification, following the tradition in labor economics, that dependent variable is regressed on the key use of inputs along with any other management practices that are essential to be controlled for. Thus, when egalitarianism is there as an independent variable of interest, this informs us on the role of egalitarianism in impacting productivity, as measured by value-added net of all other controllable inputs and other factors. The second approach is to run a profitability equation where ROA is the dependent variable (Siegel, Pyun, and Cheon, 2019).

Use of collective bonuses. To measure whether firms are using collective bonuses, we use as one of our main independent variables a dummy variable of whether a firm uses collective bonuses to pay employees or managers[12]. Questions about utilization of these practices are asked during each iteration of the ER survey; thus a firm's answers can vary over time. Use of the practice is coded as 1 if the firm uses the practice and 0 if it does not.

Use of individualized bonuses. To measure whether firms are using individualized bonuses, we use a dummy variable of whether a firm uses individualized bonuses to pay employees or managers. Questions about utilization of these practices are asked during each iteration of the ER survey. Use of the practice is coded as 1 if the firm uses the practice and 0 if it does not.

Firm characteristics. We control for various firm characteristics that could be correlated with a firm's use of compensation practices as well as its overall productivity/profitability. First, we control for *firm size* measured as the log of labor costs. Labor costs include all employee wage costs plus social costs the firm must pay for its employees (healthcare, leave, retirement). Firm size could impact firm productivity in that larger firms may be better able to maximize economies of scale and may be more likely to use pay-for-performance compensation (Cuñat and Guadalupe, 2009). In addition, some work suggests that the effectiveness of collective bonuses may diminish with firm size as free-riding may be less easy to monitor (Prendergast, 1999). We also control for *union density*, measured as the percentage of employees who are unionized, a question included in the ER survey. Unions could influence how and whether compensation practices are implemented and could also impact overall firm productivity. Work has suggested that unions tend to disfavor more individualized pay-for-performance as it may encourage wage disparity, give discretionary power to managers, and generally goes against the egalitarian ideals of unions (Bryson *et al.*, 2012; Origo, 2009; Siegel and Larson, 2009). *Firm leverage,* measured as a firms total liabilities/total assets, is also controlled for; leverage could impact the types of organizational practices that firms employ and overall firm productivity. Other firm characteristics that have shown to impact productivity and may be related to decisions about internal organizational practices include *export sales intensity* (export sales divided by total sales), *advertising intensity* (advertising expenditures divided by total sales), *log of capital* (fixed assets), and *log of input costs* (cost of raw materials + raw goods) (Bloom, Sadun and Van Reenen 2012, Caroli and van Reenen 2001, Siegel et al. 2019).

Organizational/HR practices. We also control for various other organizational practices that could be correlated with a firm's use of compensation practices as well as overall firm performance. Technology usage has been shown to facilitate the use of pay-for-performance compensation practices. For example, information and communication technology and manufacturing technology can make communication and coordination easier, factors deemed important for collective bonuses, and help reduce monitoring costs of pay-for-performance. Through separate veins, it can also increase firm productivity. (Bryson *et al.*, 2012; Dunlop and Weil, 1996) Therefore, we control for *firm technology* through an additive index of whether a firm uses various technologies that are specified in the ER survey. They include computerized numerical controls, computer aided design technology, and just-in-time methods. Firm technology can range from 0 to 3 depending on the amount of technologies the firm uses. We also control for *management quality* as higher overall management quality may generate higher firm productivity and potentially impact use and implementation of compensation practices (Bryson *et al.*, 2012). Management quality is measured as the sum of a firm's answers to questions about its use of practices that are generally viewed as positive people-management practices. Similar to Bloom et al., (2012)'s[13] people management score, we draw on the ER survey to determine whether there is a direct link between employee evaluation and compensation (high performers are rewarded), between employee evaluation and promotion decisions (high performers are promoted), and between employee evaluation and job security (poor performers are dismissed). Management quality can range from 0 to 3 depending on the how many of these practices that a firm uses. Finally, because changes in compensation structures often happen in parallel to changes or adoption of other organizational practices, it is possible that different compensation structures may also mean adoption of other organizational practices such as increased employee autonomy and participation, information sharing, and use of groups (Black and Lynch, 2001, 2004; Bryson *et al.*, 2012; Ichniowski *et al.*, 1997; Kandel and Lazear, 1992; Knez and Simester, 2001). Thus we control for various *other HR practices* that could be correlated with use of compensation practices and could affect firm productivity and profitability. These include whether:

1. When a problem arises in production or the functioning of a service, employees are encouraged to solve the problem themselves first versus talk to hierarchy.
2. Work is generally defined in terms of more global objectives rather than precise detail.
3. The firm's strategy/direction is regularly shared with employees.
4. Formal groups exist in which employees can express their opinion.

Employee demographics. Prior work has suggested that skill level of employees may influence the types of compensation practices that firms use as well as have an overall impact on firm productivity for other reasons (Cuñat and Guadalupe, 2009; Gerhart and Milkovich, 1990). Therefore, we control for *average skill level of employees* of a firm by creating a dummy variable that represents whether the majority (>=50%) of randomly selected employees for the ER survey of each firm had a baccalaureate degree or higher[14].

Egalitarianism. For Hypothesis 3, to gauge the cultural importance placed on egalitarianism in a multinational's home country, we use Schwartz's (1994) country-level measure of egalitarian commitment.

Model Specification

To test Hypothesis 1 that the use of collective bonuses will have a positive effect on firm productivity and profitability while individual bonuses will not in the cultural context of France, we run OLS regressions with firm profitability and productivity as the dependent variables and collective bonus and individual bonus dummies as the independent variables. We use firm-level fixed effects on the panel of firms with at least two observations during the time period 1999-2011. This approach allows us to exploit within-firm variation and thus control for unobserved time-invariant confounding variables as well as firm specific factors, such as firm capabilities and resources. We also include year dummies to account for unobserved aggregate time trends that may impact all firms, such as macroeconomic cycles. Errors are clustered at the firm level. We report regression results separately for French MNEs and foreign MNE firms. Doing so demonstrates the influence of collective bonuses and individual bonuses on productivity and profitability within each respective peer group.

We choose to focus our analysis on within firm changes because: 1) Without these essential controls (firm and time fixed effects), we can draw incorrect inferences of the results due to unobserved time-invariant firm heterogeneity; 2) There are significant within-firm changes in the use of compensation practices in our data (~36% of MNEs change their use of collective bonuses over the time periods we observe). (See Table II for details)

INSERT TABLE II ABOUT HERE

To test Hypothesis 2, that French MNEs will benefit more than foreign MNEs from the use of collective bonuses, we run OLS regressions with firm productivity and profitability as our dependent variables and the interaction effect of if a firm is a foreign MNE and uses a collective bonus as our main independent variable. We use firm-level fixed effects on the panel of firms with at least two observations during the time period 1999-2011. We also include year dummies. Errors are clustered at the firm level.

To explore Hypothesis 3 that, among foreign MNEs, implementation of collective bonuses will be most beneficial to those coming from countries where egalitarian commitment is high, we run OLS regressions with firm profitability and productivity as the dependent variable and an interaction effect of if a MNE comes from a country where egalitarian commitment is high and use collective bonuses as our main independent variable. We use firm-level fixed effects on the panel of firms with at least two observations during the time period 1999-2011. We also include year dummies. Errors are clustered at the firm level.

RESULTS

Table III reports correlation matrices and Table IV reports descriptive statistics of all variables broken out by French MNEs and foreign MNEs. As Table IV shows, 35% of the MNEs are French MNEs and 65% are foreign MNEs. In 2005, on average, MNEs in the sample had 2412 employees, ROA was 0.06, and gross profits were ~466 million euros. In general, French MNEs tend to employee more people than foreign MNEs. ROA tends to be higher for foreign MNEs. On average 82% of MNEs used collective bonuses and 89% used individual bonuses in 2005. On average 11-12% of employees are unionized. Foreign MNEs tend to use slightly more technology tools while French MNEs tend to have slightly higher-quality people management practices.

INSERT TABLE III ABOUT HERE

INSERT TABLE IV ABOUT HERE

Figure 1 shows the evolution of collective bonuses over time broken out by MNE status. Consistent with other studies noting the increased use of pay-for-performance measures, both French and foreign MNEs use more collective bonuses over time.

INSERT FIGURE 1 ABOUT HERE

Table V presents the breakout of MNEs by nationality and their corresponding egalitarian commitment score. Foreign MNEs that have a sizable presence in the sample are from Belgium, Germany, Great Britain, Italy, Japan, Luxembourg, the Netherlands, Sweden, Switzerland, and the United States. This resonates with overall foreign-direct-investment (FDI) numbers of countries that tend to have a presence in France (UN World Investment Report, 2016: Annex Tables, 2016)

INSERT TABLE V ABOUT HERE

The results in Table VI strongly support Hypothesis 1 that use of collective bonuses show positive productivity and profitability benefits while individualized bonuses do not, particularly for French MNEs. The coefficient of collective bonus usage is positive and statistically significant while the coefficient for individualized bonus usage is not for French MNEs. Holding all other control variables constant, using collective bonuses results in a log (gross profit) increase of .14 and an ROA increase of .05. Using individualized bonuses does not significantly impact profitability or productivity. For foreign MNEs, while coefficients are not statistically significant, coefficients of individualized bonuses are slightly more negative than for collective bonuses.

INSERT TABLE VI ABOUT HERE

Hypothesis 2 suggests that French MNEs will benefit more than foreign MNEs from implementing collective bonuses. The results in Table VII provide support for this hypothesis; the coefficient for the interaction term of foreign MNE*collective bonus is negative and statistically significant. This finding demonstrates that foreign MNEs that implement collective bonuses benefit significantly *less* than French MNEs that implement collective bonuses. Holding all other coefficients constant, when a French MNE implements a collective bonus, log (gross profit) increases by .14 and ROA increases by .05. Both coefficients are statistically significant. However, when a foreign MNE implements a collective bonus, log(gross profit) decreases by .04 and ROA increases by 0. The coefficients for French MNEs and foreign MNEs (0.14 vs. -0.04 and 0.05 vs. 0) are statistically significantly different. Using both firm and time fixed effects, the result of interest is very strong and robust.

INSERT TABLE VII ABOUT HERE

Hypothesis 3, which argues that foreign MNEs from countries with a relatively high prioritization on egalitarianism will benefit more than foreign MNEs coming from countries with a relatively lower prioritization on egalitarianism, is also generally supported by the results displayed in Table VIII. We categorize foreign MNEs into two groups: those from home countries with a relatively low prioritization on egalitarianism (with egalitarian scores less than 4.9) and those from countries with a relatively high prioritization on egalitarianism (with egalitarian scores equal to or above 4.9)[15]. The interaction term of low egalitarian*collective bonus is negative and statistically significant on productivity measures (log of gross profit).

This finding demonstrates that foreign MNEs from countries with a relatively lower prioritization on egalitarianism that implement collective bonuses in France benefit significantly *less* in terms of productivity than do foreign MNEs from countries with a relatively high commitment to egalitarianism that do so. While the coefficient of collective bonuses on log of gross profits (.005) is statistically insignificant, indicating that use of collective bonuses doesn't have a significant positive impact on foreign MNEs from high-egalitarianism countries, collective bonuses at MNEs from countries with a relatively low prioritization on egalitarianism have a negative effect.

Examples of countries with a relatively high prioritization on egalitarianism include Great Britain, Italy and the Netherlands; examples of countries with a relatively lower prioritization on egalitarianism include the United States, Japan, and South Korea. For ROA, the interaction term of low egalitarian*collective bonus is negative but not statistically significant. Thus, whether a foreign MNE comes from a low egalitarian or high egalitarian country has no significant effect on the influence of collective bonuses on ROA.

INSERT TABLE VIII ABOUT HERE

Supplementary Analysis

*Robustness Check*s: In supplementary analysis, we run various robustness checks (found in Appendix A). For the results that collective bonuses work better than individualized bonuses in the French cultural context (Hypothesis 1) we include various measures of firm productivity, different combinations of control variables, and different estimation methods. Appendix Table I represents the result for French MNEs. Model 1 includes only firm-characteristic control variables. Model 2 includes firm-characteristic variables and organizational/HR variables. Models 3 and 4 use log of sales and value added as alternative measures of firm productivity. Overall the robustness checks support the finding that collective bonuses benefit firm productivity while individual bonuses do not.

For Hypothesis 2, we suggest that foreign MNEs benefit less than French MNEs when implementing collective bonuses because they lack understanding of the informal cultural nuances of how to maintain a calm, coherent, and cohesive social environment in France, and because it is sometimes challenging to convince their HQs of the importance of doing so. To provide additional evidence that having a calm social environment is important to realizing the benefits of collective bonuses, we test the interaction of calm social climate * collective bonuses for the sample of all MNEs [16]. As seen in Appendix Table II, the interaction coefficient is positive, implying that having a calm social climate within the organization largely helps them benefit from collective bonuses.

Finally, for additional robustness checks we break out foreign MNEs into different subsets to see if our results hold even within these subsets. The subsets include only US MNEs (as a large portion of foreign MNEs in France come from the US) and MNEs from Germany, Great Britain, and Sweden (the most numerous foreign MNEs in France other than the US). Findings are similar to the main findings in that individualized bonuses do not bring benefits to foreign MNEs and foreign MNEs are not benefitting as much from collective bonuses as French MNEs. Appendix Table III shows that for different subsets of foreign MNEs, neither collective bonuses nor individual bonuses provide significant productivity or profitability benefits. However, the coefficient for individualized bonuses tends to be smaller, sometimes even negative, versus the coefficients for collective bonuses. Appendix Table VI shows that French MNEs are benefitting significantly more from the use of collective bonuses than the different subsets of foreign MNEs.

DISCUSSION

In summary, this study provides an in-depth analysis of why LOF aren't always mitigated by local adaptation. We show that adoption of local practices may generate poorer performance for foreign MNEs (than for their local counterparts) because they lack the understanding and ability to implement informal requirements needed to make a given practice succeed in a host country. In fact, in many cases there is a conflict between these informal requirements and the "informal institutions" (culture) from the MNE's home country, which are a core part of their tacit knowledge.

In the context of France, a society where egalitarian commitment to wealth distribution is extremely strong, French MNEs see significant productivity and profitability benefits when implementing collective bonuses, while foreign MNEs, especially those from countries where egalitarianism is relatively less highly valued, do not. Holding all other control variables constant, for French MNEs, using a collective bonus results in an ROA increase of .05 and a 14% increase in gross profit. For foreign MNEs from countries where egalitarianism is highly valued, they receive no benefit from implementing collective bonuses and for foreign MNEs from countries with a relatively lower prioritization of egalitarianism, collective bonuses can actually be slightly detrimental to their productivity.

Even though foreign MNEs used compensation practices in line with the host country's egalitarian norms, they didn't master the contextual factors needed to successfully implement these practices. First, they had more trouble maintaining a *cohesive* social environment. As collective bonuses tend to work best in contexts where individuals feel united (Bloom, 1999; Hamilton *et al.*, 2003; Ichinowski *et al.*, 1997; Kandel and Lazear, 1992), this put foreign MNEs at a disadvantage; knowing how to work with French unions was often challenging for them and they did not always have the support from their HQs to spend the time to do so. Second, for MNEs from countries where egalitarianism is relatively less of a priority, maintaining a *coherent* egalitarian environment was more difficult; the egalitarian norms of their home countries were subtly present in their French subsidiaries. Thus, inconsistencies arose between an egalitarian practice (collective bonuses) and non-egalitarian discourses, actions, and symbols used by top management. Such incoherence can reduce performance benefits of the adopted practice because of the confusion, frustration, and mistrust it brings to employees (Bowen and Ostroff, 2004; Chan *et al.*, 2004; Wei *et al.*, 2008). Figure 1 demonstrates that foreign MNEs also seem to recognize at some level the difficulty they face in adopting collective bonuses in France: though adoption of collective bonuses by foreign MNEs has increased over time, unlike their French counterparts, it has also leveled off. This pattern suggests that adoption has not been uniformly positive for them.

An alternative explanation to why foreign MNEs benefit less (than their local counterparts) from collective bonuses is that there is a self-selection of less egalitarian people into foreign MNEs in France. Thus, perhaps employees working in foreign MNEs are inherently less motivated by collective bonuses. While we cannot fully rule out this explanation, as we don't have employee-level measures of egalitarian commitment, there are multiple reasons why we believe that this isn't the main driver to our findings. First, Schwartz level cultural values are thought to be relatively similar within a country – people are socialized in similar institutions (i.e. language, educational systems, political systems, etc.) that shape how much they value egalitarian commitment (Schwartz, 1994). Second, we found no stark differences between employees at foreign and French MNEs. Many interviewees had tacked back and forth between the two types of firms throughout their careers. Nor does there appear to be a prevailing preference for French or foreign MNEs; surveys show that the employers preferred by newly graduated French students (from top schools) include both French MNEs and foreign MNEs in France (Zeller, 2020). Third, our data shows that even at foreign MNEs, individual bonuses are ineffective. This pattern suggests that employees at foreign MNEs are not necessarily motivated by "less egalitarian" compensation practices. Though this is a correlational study, it is hard to generate viable alternative ways to explain why the use of collective bonuses affects foreign MNEs in France in the pattern we identified.

Contribution to LOF literature

This study's findings contribute to the LOF literature by showing why local adaptation sometimes fails to be effective. While this literature suggests that adopting local practices can generally result in MNEs overcoming their LOF (Oetzel and Doh, 2009; Rosenzweig and Nohria, 1994; Salomon and Wu, 2012), we challenge this assumption. Namely, we show that MNEs may still be at a disadvantage as they have difficulty deciphering important informal host country norms and navigating between home and host country norms. It is one of the first studies to show why imitating local practice may not reduce LOF because of the role of cultural conflicts (home vs. host) in making such imitation ineffective. Our findings suggest that formally adopting local practices is not always enough because informal norms can strongly influence the effectiveness of these formal practices.

In our setting of France, the strong cultural commitment to egalitarianism not only shaped the type of compensation practices that worked best but also shaped the more informal requirements to benefit from these practices. Future research could further explore how foreign MNEs can effectively learn the important informal norms of host countries, still a major challenge for many. For example, MNEs such as General Electric and General Motors in France have documented their struggle of learning to fit in and become more "French" in terms of the informal workings of their subsidiaries. They tried training seminars for ex-pat managers and using the local language in the workplace (Hutnek, 2016; Truchot, 2016), but we still have a limited understanding of how foreign MNEs can understand and effectively implement these more subtle norms.

In addition, we shed light on the cultural elements – home country's commitment to egalitarianism – that MNEs carry with them to their subsidiaries and how such elements can also cause foreign MNEs challenges. Although some work has explored how a MNE's home country culture can impact their operations abroad (Ngo *et al.*, 1998; Noorderhaven and Harzing, 2003), they tend to highlight how culture influences more tangible or "visible" elements within subsidiaries. For instance home country trust norms can influence decentralization structures of subsidiaries (Bloom, Sadun, and Reenen, 2012a) and home country gender equality norms can influence hiring practices abroad (Ono, 2007). Our study builds on this work by demonstrating how home country cultural norms also influence more informal workings within subsidiaries (e.g., non-egalitarian symbols and discourse) that can shape their effectiveness abroad.

We also add to the literature that highlights how the complexity of the institutional environments that MNEs deal with can make local adaptation far from easy (Cantwell *et al.*, 2010; Edwards *et al.*, 2016; Kostova *et al.*, 2008; Newenham-Kahindi and Stevens, 2018; Orr and Scott, 2008; Stevens *et al.*, 2016). First, our findings further clarify differences between LOF and liabilities of multinationality by showing how grasping informal norms of a host country is a clear LOF foreign MNEs face with respect to local firms; this liability is different from the complexity and coordination costs associated with being a MNE (as compared to a fully domestic firm).

Second, in addition to juggling multiple institutional environments, this body of research "suggests that adapting and adjusting to institutions in a host country requires a response not simply to a single institution, but to an entire system" (Ahmadjian, 2016, p. 18). We contribute to these studies by showing how adapting only formal practices, without taking into account the other dimensions of the environment (i.e. the informal norms) can be very problematic. Our findings imply that when MNEs don't properly understand or take into consideration the multiple dimensions of the host country's institutions (e.g. both the informal norms and formal practices associated with a strongly egalitarian culture), they might make mistakes in their local adaptation strategy.

For instance, if MNEs don't understand the informal requirements of implementing a local practice, they might incorrectly follow the strategy of adopting local practices, without fully comprehending the magnitude of conflict between host and home cultural norms. When this conflict is stark, other adaptation strategies – such as creating new practices – may be more appropriate (Newenham-Kahindi and Stevens, 2018). For example, Siegel and Larson (2009) found that when the tension of host and home country cultural norms was high, Lincoln Electric managers resolved the situation by coming up with a new way of managing; the practices used were neither home or host country practices, but a new set of practices. Overall our findings suggest that a deeper understanding of local environments – beyond just knowing the practices that local firms are using – can help MNEs make more strategic decisions in terms of their adaptation policies.

In our context, for certain MNEs perhaps a deeper comprehension of the informal norms of egalitarianism in France is enough to allow them to fully benefit from local adaptation (i.e. using collective bonuses). They can invest the time and energy to understand and adhere to the informal requirements (i.e. maintaining a cohesive and coherent egalitarian environment) and this will not cause unresolvable issues with their headquarters. For other MNEs, from countries where home country cultural norms are in deep conflict with the egalitarian norms of France, a different strategy may be better (e.g. coming up with a new way to compensate employees instead of using local practices). Future research could further explore how foreign MNEs may better take into account the interaction of the informal norms of their host and home countries, when choosing their local adaption strategies. Future work could also investigate whether MNEs can build up their absorptive capacity vis-à-vis local adaptation through greater experience.

This study also contributes to the literature on how foreigners can overcome institutional obstacles with local experience and networking (Andersson, Forsgren, and Holm, 2002; Figueiredo, 2011; Fjeldstad and Sasson, 2010; Meyer, Mudambi, and Narula, 2011). Our findings suggest that strong local connections may be critical to decipher the subtle cultural nuances of host countries. These local connections can play an important role in either helping foreign MNEs learn the informal norms needed to fully benefit from the adoption of local practices or helping MNEs create a new set of practices that may be different, but still acceptable. However, building these meaningful relationships with local stakeholders can be challenging. For example, multiple MNEs in France, such as Disneyland, McDonalds, and Coca Cola struggled for years to do so (Brannen, 2004;

Kuisel, 1993). They underestimated the need for these local connections when they first entered France and then had to overcome the initial mistrust that formed. Future research could explore how MNEs can effectively build these deep local connections early on, in order to help them learn “a host country’s unwritten, unspoken rules of the game” (Siegel, 2013, p. 1179).

Finally, whereas findings of this study highlight how the subtle transfer of a home country’s egalitarian norms can be a liability for certain MNEs, future work could also explore situations where carrying home country cultural norms to subsidiaries could be beneficial. An emerging body of work has suggested that in certain instances, being a foreigner could actually be an asset for MNEs (Nachum, 2010; Newburry et al., 2006; Regnér and Edman, 2014; Taussig, 2017). For instance, foreign MNEs in South Korea benefitted from not adhering to local hiring practices that disadvantaged women (Siegel et al., 2019) and foreign MNEs in Japan successfully deviated from local banking practices (Edman, 2016). Thus, under certain circumstances, the subtle presence of home country cultural norms in subsidiaries – for instance blending in on the surface but doing things differently informally – could perhaps be an asset to MNEs.

Contribution to work on HRM & importance of contextual factors

This study also adds to research emphasizing the importance of contextual factors in the successful implementation of organizational practices (Ichinowski *et al.*, 1997). Work in this area highlights that the same organizational practices can bring very different performance outcomes depending on contextual factors, such as cultural values of a country (Chiang and Birtch, 2012; Fey *et al.*, 2009) or employee perceptions of the practice or organization (Guzzo and Noonan, 1994; Jiang *et al.*, 2017; Takeuchi *et al.*, 2009). Our findings showcase how differing informal norms related to egalitarianism within an organization can result in very different performance benefits of collective bonuses. Perhaps future work could focus on getting a better understanding of what informal norms may be so important to effectively implementing various compensation practices, beyond collective bonuses.

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Table I: Summary Statistics of Interviewees

Interview	Gender	Nationality	Current Position	Industry (Current Company)	Nationality of MNE Home Countries Where They Have Worked (in France)	# of Companies Where They Have Worked	Experience Outside of France?
1	Female	French	CEO	Industrial Services	France	1	Yes
2	Female	French	Head of Marketing	Technology	US	3	Yes
3	Male	French	Global Head of HR	Industrial Services	France, US	4	No
4	Male	German	CEO	Media	Germany	4	Yes
5	Female	French	Manager	Media	Germany, France	2	Yes
6	Male	French	Head of HR in France	Advertising	France	2	No
7	Female	French	Manager	Rail Transportation	US, France, Ireland	4	Yes
8	Male	French	Manager	Manufacturing	Germany, France, US	3	Yes
9	Male	Indian	Manager	IT Consulting	India, US	3	Yes
10	Male	French	CEO	Insurance	Great Britain, US	3	Yes
11	Male	British	COO	Manufacturing	Great Britain	4	Yes
12	Male	French	Manager	Conglomerate	Japan, France	4	Yes
13	Male	German	Manager	Enterprise Software	Germany	2	Yes
14	Male	French	Manager	Conglomerate	US	5	Yes
15	Male	French/Canadian	CEO	Pharmaceuticals	Middle East	3	Yes
16	Male	British	Manager	Pharmaceuticals	France	4	Yes
17	Male	French	Manager	Conglomerate	France, US	5	Yes
18	Female	French	CFO	Management Consulting	US, France	5	Yes
19	Female	French	Manager	Chemicals	Germany	2	Yes
20	Male	South African	CEO	Technology	France, Switzerland	4	Yes
21	Male	Belgium	Manager	Manufacturing	US	5	Yes
22	Male	French	Employee	Technology	US	5	Yes
23	Male	Russian	Manager	Technology	US, Italy	3	Yes

24	Male	French	Manager	Conglomerate	US	1	Yes
25	Female	Indian	Manager	Energy Management	France	3	Yes
26	Male	French	Manager	Financial Services	France, Japan	5	No
27	Male	French	Manager	Recruitment	US	6	Yes

Table I: Summary Statistics of Interviewees (continued)

Interview	Gender	Nationality	Current Position	Industry (Current Company)	Nationality of MNE Home Countries Where They Have Worked (in France)	# of Companies Where They Have Worked	Experience Outside of France?
28	Male	French	Manager	Information Storage	US, Germany	4	Yes
29	Female	French	Manager	Restauration	US, France	4	Yes
30	Female	American	Manager	E-Commerce	US	3	Yes
31	Male	French	Manager	Entertainment	US	7	Yes
32	Male	French	Manager	Building Materials	France	2	Yes
33	Male	French	Manager	Construction	France	4	Yes
34	Male	French	Manager	Software	France, US	4	Yes
35	Male	French/Mauritian	CEO	Telecommunications	US, France, Netherlands	3	Yes
36	Male	French	Employee	Manufacturing	France, Germany	2	Yes
37	Female	Moroccan	Employee	Energy	France	1	Yes
38	Male	French	Manager	Aerospace & Defense	France, US	2	Yes
39	Female	French	Manager	Pharmaceuticals	Netherlands, US	2	No
40	Male	French	Manager	Automobile	France	3	Yes
41	Male	French	Manager	Pharmaceuticals	Netherlands, US	2	No
42	Female	French	Manager	Mass Media	Canada, France, Great Britain	3	Yes
43	Male	French	Manager	Hospitality	France	1	No
44	Female	French	CIO	Aerospace & Defense	France, US	4	Yes
45	Female	Spanish	Employee	Nonprofit	Great Britain	1	Yes
46	Female	French	Employee	Financial Services	France	4	Yes

47	Male	American	Manager	Laboratory Equipment	US	3	Yes
48	Male	French	Manager	Personal Care	France	5	Yes
49	Female	French	Manager	E-Commerce	US	5	Yes
50	Female	French	Manager	Management Consulting	US	3	No

Table II: Percentage of firms that changed practices (from 1999-2011)

	Collective Bonuses	Individual Bonuses
All MNEs	36%*	22%
French MNEs	38%	23%
Non-French MNEs	35%	22%
Low Egalitarian Non-French MNEs	33%	22%
High Egalitarian Non-French MNEs	35%	22%

*This can be interpreted as 36% of all MNEs change their use of collective bonuses over the time periods we observe. They either went from not using collective bonuses to using them, using collective bonuses to not using them, or oscillating back and forth.

Table III: Correlation Matrix

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. *Use of collective bonuses*	1.00														
2. *Labor Costs*	0.08	1.00													
3. *Capital*	0.06	0.84	1.00												
4. *Input Costs*	0.10	0.32	0.25	1.00											
5. *Leverage*	-0.10	-0.05	-0.07	0.00	1.00										
6. *Export Sales Intensity*	-0.03	-0.08	-0.06	-0.07	-0.01	1.00									
7. *Advertising Intensity*	0.02	-0.00	-0.01	0.03	-0.05	0.01	1.00								
8. *Union Density*	0.02	0.06	0.09	0.03	-0.01	-0.05	-0.08	1.00							
9. *Technology*	0.05	-0.04	-0.03	-0.08	-0.19	0.32	0.00	0.04	1.00						
10. *People management quality*	0.06	0.11	0.08	0.06	0.08	-0.03	0.05	-0.01	0.02	1.00					
11. *Use of individualized bonuses*	0.17	0.04	0.04	0.07	0.04	-0.18	-0.04	-0.03	-0.14	0.10	1.00				
12. Groups of expression?	0.09	-0.01	-0.03	0.06	-0.04	-0.05	0.04	0.08	0.06	0.07	0.03	1.00			
13. Employee Autonomy	-0.04	0.08	0.06	0.02	0.02	0.14	0.02	0.02	0.09	0.09	0.01	0.01	1.00		
14. Precision of Instruction	-0.01	-0.01	0.03	0.04	-0.02	-0.05	-0.02	0.08	0.12	0.04	-0.02	0.03	-0.16	1.00	
15. Information Sharing	0.10	0.12	0.07	0.12	-0.03	0.05	-0.02	-0.01	0.00	0.11	0.03	0.13	0.08	-0.07	1.00
16. *Average Employee Skill level (estimated)*	0.04	0.07	0.05	0.00	0.05	0.07	0.00	-0.03	-0.06	0.05	-0.03	0.02	0.03	-0.18	0.10

Groups of expression: Formal groups exist in which employees can express their opinion.

Employee Autonomy: When a problem arises in production or the functioning of a service, employees are encouraged to solve the problem themselves first versus talk to hierarchy

Precision of Instruction: Work is generally defined in terms of more global objectives rather than precise detail.

Information Sharing: The firm's strategy/direction is regularly shared with employees.

Table IV: French descriptive statistics broken out by Multinational status, 2005

	All MNEs		***French MNEs***		***Non-French MNES***	
	Mean	SD	Mean	SD	Mean	SD
Gross Profit	446,835	1,959,072	956,148	3,265,842	181,655	326,018
ROA	0.06	0.10	0.05	0.09	0.07	0.11
Use of collective bonuses	0.824	0.38	0.831	0.38	0.821	0.38
Use of individualized bonuses	0.89	0.31	0.90	0.31	0.89	0.32
Labor	2,412	8,403	4,722	13,854	1,210	1,931
Labor Costs	128,845	513,270	260,455	852,973	60,320	100,216
Capital	720,924	7,439,464	1,848,440	12,700,000	133,870	303,657
Input Costs	386,073	1,510,127	624,472	2,319,330	261,948	798,431
Leverage	0.62	0.33	0.63	0.22	0.61	0.38
Export Sales Intensity	0.32	0.31	0.29	0.29	0.33	0.31
Advertising Intensity	0.00	0.01	0.00	0.01	0.00	0.01
Union Density	11.38	12.73	12.00	12.92	11.04	12.65
Technology	2.35	1.34	2.21	1.30	2.42	1.36

People management quality	1.31	0.92	1.41	0.91	1.26	0.92
Other HR Practices						
Groups of expression	0.29	0.46	0.31	0.46	0.29	0.45
Employee Autonomy	0.67	0.47	0.67	0.47	0.67	0.47
Precision of Instruction	0.69	0.46	0.75	0.43	0.66	0.48
Information Sharing	0.62	0.49	0.63	0.49	0.62	0.49
Average Employee Skill level (estimated)	0.68	0.47	0.71	0.45	0.68	0.47
Annual wages per employee (000)	36	15	37	18	35	13
Age	27	15	25	14	27	15
Firm-Year Observations	940		331		609	

Table V: Nationality of Multinationals in France

MNE Home Country	Firm-Year Observations	Egalitarian Commitment Score
Australia	5	4.92
Austria	2	5.06
Belgium	38	a
Canada	8	4.99
China	2	4.31
Denmark	4	5.15
Finland	7	5.03
France	331	5.18
Germany	103	5.14
Great Britain	63	5.00
India	4	4.49
Ireland	3	4.99
Italy	17	5.38
Japan	23	4.47
Luxembourg	13	a
Malaysia	2	4.50
Mexico	2	4.77
Netherlands	31	5.08
Norway	2	5.29
South Korea	2	4.47
Spain	6	5.20
Sweden	37	4.96
Switzerland	30	4.98
United States	201	4.80

Notes: Schwartz survey score on egalitarianism is available for 55 countries from around the world but not available for Belgium and Luxembourg.

Figure 1: Evolution of collective bonuses over time

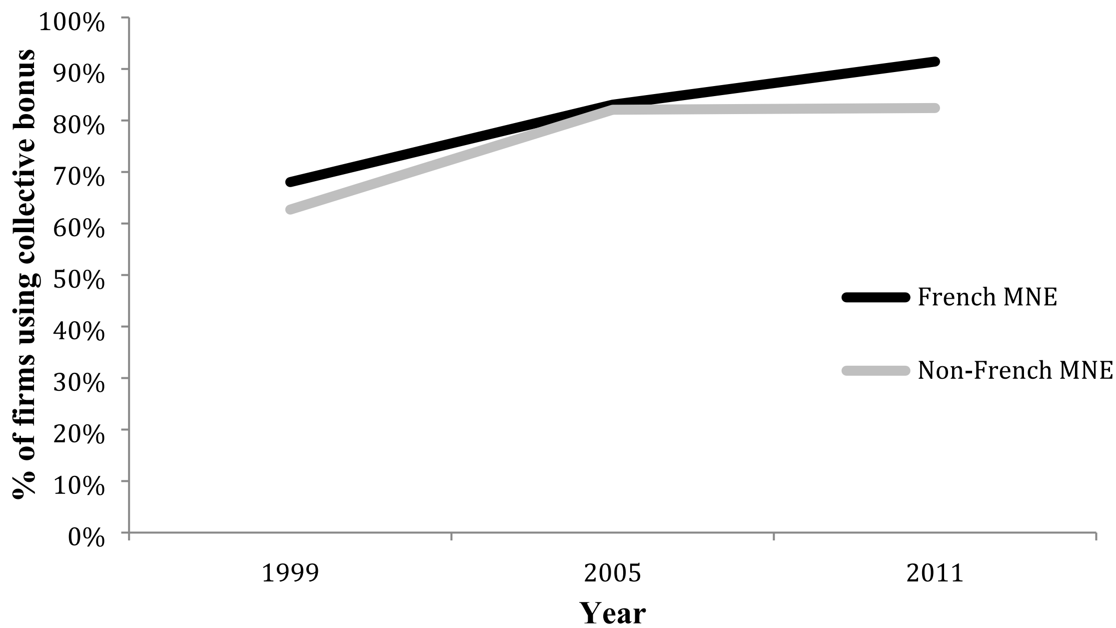

Table VI: Impact of Collective Bonuses on Firm Productivity and Profitability

	French MNEs		Non-French MNEs	
	1	2	3	4
	Productivity Model	Profitability Model	Productivity Model	Profitability Model
Dependent Variable	log (gross profit)	ROA	log (gross profit)	ROA
Collective Bonuses	.14** (.05)	.05** (.02)	-.03 (.03)	-.00 (.01)
Individualized Bonuses	-.003 (.06)	-.009 (.02)	-.08 (.05)	-.008 (.01)
Controls:				
Firm Size	1.09**(.13)	.04* (.021)	.86**(.09)	-.00 (.01)
log (capital)	-.07 (.08)		.03 (.06)	
log (input costs)	-.01 (.03)		.03 (.04)	
Leverage	-0.02 (0.14)	-.09**(.04)	-.13 (.09)	-.17**(.03)
Export Sales Intensity	.31 (.24)	-.04 (.05)	.01 (.13)	-.01 (.03)
Advertising Intensity	-1.91 (1.4)	-.49 (.54)	-1.3 (2.7)	-.97* (.58)
Union Density	.0025* (.0014)	.001** (.0004)	-.001 (.001)	-.00 (.00)
Technology Usage	.03 (.02)	.004 (.005)	.01 (.01)	-.01 (.01)
People Management Quality	-.02 (.02)	-.001 (.006)	.02 (.02)	.005 (.005)
Other HR Practices				
Employee Autonomy	.07 (.05)	-.01 (.01)	.02 (.03)	.01 (.01)
Precision of Instruction	.02 (.05)	-.01 (.01)	-.01 (.04)	.003 (.01)
Information Sharing	-.04 (.04)	.01 (.01)	-03 (.03)	-.01 (.01)
Groups of expression	-.001 (.05)	.01 (.01)	-.01 (.04)	.00 (.01)
Average Employee Skill level	-.04 (.06)	-.05** (.02)	.02 (.03)	-.01 (.02)
Time Fixed Effects	Y	Y	Y	Y
Firm Fixed Effects	Y	Y	Y	Y
Observations	253	258	418	432
Within R-Squared	0.7456	0.3462	0.7192	0.3294

Notes: All models are OLS. Number is parenthesis is standard error.

Models 1 & 3 are productivity equations and thus include log (capital) and log (input costs) as controls.

Models 2 & 4 are profitability equations and thus do not include these 2 controls.

Firm size is measured as log (labor costs). Errors clustered at firm level.

** p< .05; * p<.10; Number in parenthesis is standard error

Table VII: Impact of Collective Bonuses on Firm Productivity and Profitability (French vs. Foreign MNEs)

	MNEs	
	1	**2**
	Productivity Model	Profitability Model
Dependent Variable	log (gross profit)	ROA
Collective Bonuses	.14** (.05)	.05** (.02)
*Collective Bonus * Non-French MNE*	-.18** (.06)	-.05** (.02)
Non-French MNE	.03 (.09)	.04 (.04)
Controls:		
Firm Size	.93** (.07)	.01 (.01)
log (capital)	.01 (.05)	
log (input costs)	.004 (.02)	
Leverage	-.09 (.07)	-.14** (.03)
Export Sales Intensity	.12 (.11)	-.01 (.02)
Advertising Intensity	-1.6 (1.4)	-.80* (.42)
Union Density	.00 (.00)	.00 (.00)
Technology Usage	.02* (.012)	-.002 (.004)
People Management Quality	.006 (.01)	.001 (.004)
Other HR Practices		
Employee Autonomy	.02 (.03)	.005 (.01)
Precision of Instruction	.01 (.03)	.00 (.01)
Information Sharing	-.03 (.02)	-.003 (.008)
Groups of expression	.01 (.03)	.01 (.008)
Use of individualized bonuses	-.01 (.04)	.003 (.01)
Average Employee Skill level	.02 (.03)	-.02 (.01)
Time Fixed Effects	Y	Y
Firm Fixed Effects	Y	Y
Observations	671	690
Within R-Squared	0.715	0.25

Notes: All models are OLS. Number is parenthesis is standard error.

Model 1 is a productivity equation and thus includes log (capital) and log (input costs) as controls. Model 2 is a profitability equation and thus do not include these 2 controls.

Firm size is measured as log (labor costs). Errors clustered at firm level.

** p< .05; * p<.10; Number in parenthesis is standard error

The coefficient of Non-French MNE represents the few firms that changed ownership in our dataset (~25 firms).
When not including a dummy for Non-French MNE, coefficients on other variables are substantively comparable.

Table VIII: Impact of collective bonuses on firm productivity and profitability (Foreign MNEs from low vs. high egalitarian countries)

	Foreign MNEs	
	1	**2**
	Productivity Model	Profitability Model
Dependent Variable	log (gross profit)	ROA
Collective Bonuses	.02 (.04)	.01 (.01)
Collective Bonus Low Egalitarian*	-.14** (.06)	-.04 (.023)
Low Egalitarian		
Controls:		
Firm Size	.87** (.09)	-.00 (.01)
Log (capital)	.05 (.06)	
Log (input costs)	.02 (.04)	
Leverage	-.13 (.09)	-.17** (.03)
Export Sales Intensity	.02 (.13)	-.005 (.03)
Advertising Intensity	-1.6 (2.7)	-1.02* (.58)
Union Density	-.00 (.00)	-.00 (.00)
Technology Usage	.01 (.01)	-.01 (.01)
People Management Quality	.02 (.02)	.004 (.006)
Other HR Practices		
Employee Autonomy	.01 (.03)	.01 (.01)
Precision of Instruction	-.01 (.03)	.004 (.01)
Information Sharing	-.03 (.03)	-.01 (.01)
Groups of expression	-.01 (.04)	-.00 (.01)
Use of individualized bonuses	-.06 (.05)	-.01 (.01)
Average Employee Skill level (estimated)	.03 (.03)	-.01 (.02)
Time Fixed Effects	Y	Y
Firm Fixed Effects	Y	Y
Observations	418	432
R-Squared	0.7247	0.3368

Notes: All models are OLS. Number is parenthesis is standard error.

Model 1 is a productivity equation and thus includes log (capital) and log (input costs) as controls. Model 2 is a profitability equation and thus do not include these 2 controls.

Firm size is measured as log (labor costs). Errors clustered at firm level.

** p< .05; * p<.10; Number in parenthesis is standard error

Low Egalitarian < 4.9; High egalitarian: >=4.9

There is no coefficient on Low Egalitarian variable because it is time invariant.

NOTES

[1] In the cross-cultural psychology and international business literatures, the most common measure of a country's commitment to egalitarianism comes from Schwartz's (1994) egalitarian index that ranks 55 countries (Siegel, Licht, and Schwartz, 2013). The index was constructed based on the national-level aggregation of individual-level survey data pertaining to beliefs about equality.

[2] In 2005, 82% of foreign MNEs in France in our database utilized collective bonuses. Source: L'enquête REPONSE: Relations Professionnelles et Négociations d'Entreprise.

[3] Depending on the year, number of establishments surveyed ranges from to 2903 to 4023.

[4] Questions from the 1993 survey were somewhat different and access to the financial data corresponding to firms was limited.

[5] Access to some confidential data, on which this work is based, was made possible within a secure environment provided by CASD – Centre d'accès sécurisé aux données (Ref. 10.34724/CASD).

[6] Because the ER survey is at the establishment level (the French identifier of SIRET) and the financial data is at the enterprise level (French identifier of SIREN), for establishments that appear more than once in the ER, we aggregate the information at the SIREN level. Following Sengul & Gimeno (2013), for establishments with multiple observations, we use the following method: the value of the survey item is equal to the mode (i.e., most repeated value); if the mode is not available (because of equally repeated values), it is equal to the round integer value of the average.

[7] For firms with a minimum of 50 employees in France, work-councils become mandatory, trade unions are allowed, and profit sharing is mandatory.

[8] For firms with fewer than 50 employees, data is collected for a small group of representative firms so missing data and observations may be imputed.

[9] For the sample of firms that appear at least once, ROA = 0.05, log (gross profit) = 11.4, # of employees= 2117 in 2005. For the sample of firms that appear at least twice, in 2005 ROA = 0.06, log (gross profit) = 11.6, # of employees =2412.

[10] Bureau Van Dijk's Amadeus database provides detailed firm level information (ownership, sales, etc.) on public and private firms in Europe (Bloom, Sadun, and Van Reenen, 2012b). Global ultimate ownership is defined as >50% of control.

[11] Which is the principal category of shareholders for your firm? (1-Individual or family, 2-Non-financial French firm, 3- Non-financial foreign firm, 4-Financial French organization, 5-Financial foreign organization; 6-Employees; 7- The State or local organization, 8- Other).

[12] The survey question does not specify the type of collective bonus (i.e., bonus based on team performance, department performance, entire organization performance, etc.). There is a separate question on the survey that specifically asks about whether the firm must adhere to mandatory profit-sharing (required for firms with more than 50 full time employees).

[13] In Bloom et al. (2012), their people management score also includes a question capturing management effort of hiring talent, which is not found in the ER survey so not included in our management quality measure.

[14] Following Caroli & van Reenen (2001), we consider high skilled workers in France as those with a baccalaureate degree or higher. The ER survey for employees was sent to 10 randomly selected employees in the establishment for establishments that had at least 20 employees.

[15] The cutoff of egalitarian score (4.9) to separate high and low egalitarian countries was determined by being above or below the average egalitarian score of countries in Schwartz's sample.

[16] Calm social climate is measured as a dummy variable of how senior management views the social climate in the company today. Use of the practice is coded as 1 if the climate is described as calm/generally calm or 0 if the climate is described as tense/generally tense.

APPENDIX A: ROBUSTNESS CHECKS

Appendix Table I: Impact of collective and individual bonuses on firm productivity, French MNEs (robustness checks)

	1	**2**	**3**	**4**
Dependent Variable	log (gross profit)	log (gross profit)	log (sales)	log (value added)
Collective Bonus	.13** (.05)	.14** (.05)	.09* (.05)	.16* (.08)
Individualized Bonus	.008 (.06)	.002 (.06)	.05 (.06)	-.12 (.09)
Controls:				
Firm Size	1.03** (.13)	1.09** (.13)	.99** (.12)	.75** (.19)
Log (capital)	-.02 (.07)	-.08 (.08)	-.08 (.08)	.13 (.13)
Log (input costs)	-.005 (.03)	-.01 (.03)	.06* (.033)	-.04 (.04)
Leverage	-.03 (.17)	-.04 (.15)	.04 (.11)	.19 (.30)
Export Sales Intensity	.29 (.22)	.32 (.24)	.2 (.17)	1.28 (1.21)
Advertising Intensity	-1.52 (1.59)	-1.97 (1.43)	-1.08 (.85)	-3.27* (1.74)
Union Density	.002 (.0012)	.002* (.0014)	.00 (.00)	.004** (.002)
Technology Usage	N	.03 (.02)	.04** (.01)	-.008 (.03)
People Management Quality	N	-.02 (.02)	-.01 (.02)	-.02 (.03)
Other HR Practices	N			
Employee Autonomy		.07 (.05)	.05 (.04)	.07 (.1)
Precision of Instruction		.03 (.05)	.01 (.04)	-.07 (.09)
Information Sharing		-.04 (.04)	-.03 (.03)	-.1 (.1)
Groups of expression		.002 (.05)	.02 (.04)	.03 (.06)
Average Employee Skill level	N	N	-.01 (.05)	-.1 (.07)
Time Fixed Effects	Y	Y	Y	Y
Firm Fixed Effects	Y	Y	Y	Y
Observations	270	253	253	250
Within R-Squared	0.7251	0.7445	0.8361	0.4661

Notes: All models are OLS. Number is parenthesis is standard error.

Firm size is measured as log (labor costs).

Errors clustered at firm level.

** $p < .05$; * $p < .10$

Appendix Table II: Impact of collective bonuses on firm productivity for MNEs (Calm social climate interaction effects)

	MNEs
	1
Dependent Variable	log (gross profit)
Collective Bonuses	-.12* (.07)
*Collective Bonus * Calm Social Climate*	.17** (.08)
Calm Social Climate	-.12** (.05)
Controls:	
Firm Size	.91** (.07)
log (capital)	.03 (.05)
log (input costs)	.00 (.02)
Leverage	-.11 (.08)
Export Sales Intensity	.12 (.11)
Advertising Intensity	-1.6 (1.4)
Union Density	.00 (.00)
Technology Usage	.03** (.01)
People Management Quality	.005 (.01)
Other HR Practices	
Employee Autonomy	.03 (.03)
Precision of Instruction	.01 (.03)
Information Sharing	-.02 (.02)

Groups of expression	.01 (.03)
Use of individualized bonuses	.003 (.04)
Average Employee Skill level	.02 (.03)
Time Fixed Effects	Y
Firm Fixed Effects	Y
Observations	670
Within R-Squared	0.7104

Notes: All models are OLS. Number is parenthesis is standard error.

Firm size is measured as log (labor costs). Errors clustered at firm level. ** p< .05; * p<.10; Number in parenthesis is standard error

Appendix Table III: Foreign MNEs not benefitting from collective bonuses not driven by only few countries (Robustness Checks)

	US MNEs		Germany, Great Britain, Sweden MNEs	
	1	2	3	4
Dependent Variable	log (gross profit)	ROA	log (gross profit)	ROA
Collective Bonuses	-.07 (.07)	-.03 (.03)	.06 (.06)	.02 (.02)
Individualized Bonuses	-.15 (.1)	.003 (.04)	-.08 (.08)	-.028* (.015)
Controls:				
Firm Size	.87** (.13)	-.01 (.03)	.75** (.15)	.001 (.02)
log (capital)	-.13 (.10)		.19 (.12)	
log (input costs)	.09* (.05)		-.14* (.08)	
Leverage	-.09 (.14)	-.22** (.05)	-.11 (.18)	-.17** (.04)
Export Sales Intensity	.26 (.28)	-.02 (.08)	-.02 (.16)	-.004 (.05)
Advertising Intensity	5.8 (8.2)	-4.93** (1.5)	.82 (3.9)	-.42 (.38)
Union Density	.006 (.005)	-.00 (.002)	-.00 (.00)	-.001** (.00)
Technology Usage	-.003 (.04)	-.018 (.011)	-.01 (.02)	-.003 (.006)
People Management Quality	.07** (.03)	.017* (.01)	.02 (.04)	.03** (.01)
Other HR Practices				
Employee Autonomy	-.03 (.08)	.01 (.03)	.07 (.08)	.08** (.03)
Precision of Instruction	.14* (08)	.002 (.03)	.1** (.05)	.05** (.02)
Information Sharing	.00 (.05)	-.002 (.02)	.06 (.05)	.02 (.02)
Groups of expression	-.01 (.05)	-.007 (.02)	.06 (.07)	.00 (.01)
Average Employee Skill level	.05 (.07)	.02 (.03)	.1 (.06)	-.06** (.02)
Time Fixed Effects	Y	Y	Y	Y
Firm Fixed Effects	Y	Y	Y	Y
Observations	125	133	148	154
Within R-Squared	0.8213	0.5721	0.6983	0.6211

Notes: All models are OLS. Number is parenthesis is standard error.

Firm size is measured as log (labor costs). Errors clustered at firm level.

** p< .05; * p<.10; Number in parenthesis is standard error

Appendix Table IV: French MNEs benefitting more from collective bonuses than foreign MNEs not driven by only few countries (Robustness Checks)

	French vs. US MNEs		French vs. German/Great Britain/Sweden MNEs	
	1	**2**	**3**	**4**
Dependent Variable	log (gross profit)	ROA	log (gross profit)	ROA
Collective Bonuses	.14** (.05)	.05** (.02)	.14** (.05)	.05** (.02)
Collective Bonus * Non-French MNE	-.26** (.08)	-.08** (.02)	-.11* (.07)	-.03 (.02)
Non-French MNE	.16 (.27)	.08 (.06)	-.03 (.09)	-.01 (.05)
Controls:				
Firm Size	.96**(.1)	.01 (.02)	.92** (.11)	.02 (.02)
log (capital)	-.03 (06)		.06 (.07)	
log (input costs)	.003 (.02)		-.02 (.02)	
Leverage	-.07 (.08)	-.15** (.03)	-.05 (.12)	-.13** (.04)
Export Sales Intensity	.19 (.19)	-.008 (.04)	.18 (.17)	-.01 (.03)
Advertising Intensity	-1.3 (1.2)	-.8 (.67)	-.82 (1.35)	-.42 (.26)
Union Density	.001 (.001)	.00 (.00)	.00 (.00)	.00 (.00)
Technology Usage	.04** (.02)	-.00 (.01)	.02 (.014)	.004 (.004)
People Management Quality	-.001 (.02)	.003 (.006)	-.01 (.02)	.002 (.004)
Other HR Practices				
Employee Autonomy	.03 (.04)	-.001 (.01)	.02 (.04)	.003 (.01)
Precision of Instruction	.07 (04)	.00 (.01)	.03 (.04)	.02* (.011)
Information Sharing	-.01 (.03)	.007 (.01)	-.01 (.03)	.01 (.01)
Groups of expression	.02 (.04)	.01 (.01)	.02 (.04)	.02** (.01)
Use of individualized bonuses	-.009 (.05)	.02 (.02)	.006 (.04)	-.00 (.01)
Average Employee Skill level	.03 (.05)	-.01 (.02)	-.00 (.05)	-.04** (.01)
Time Fixed Effects	Y	Y	Y	Y
Firm Fixed Effects	Y	Y	Y	Y
Observations	378	391	401	412
Within R-Squared	0.7307	0.3354	0.702	0.3148

Notes: All models are OLS. Number is parenthesis is standard error.

Firm size is measured as log (labor costs). Errors clustered at firm level. ** p< .05; * p<.10; Number in parenthesis is standard error

The coefficient of Non-French MNE represents the few firms that changed ownership in our dataset.