

Are We Paid to Work or to be Creative?

The Effect of Compensation Gap on Creativity in an Expatriate Context

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Abstract

In developing countries, there is a relatively large compensation gap between locals and expatriates, which incurs a wide range of negative reactions from the former. Referring to the equity theory and reflection theory of pay, we proposed a negative association of local employees' creativity with the perceived compensation gap. And we adopted a multi-level approach to examine the moderating effects of trust climate on individual-level relationship of compensation gap and creativity. Data were collected from 298 Chinese employees and their supervisors in the service sector. HLM results show that perceived compensation gap was negatively related to employee creativity, more important, we found that climate of trust (cognitive and affective trust in expatriates) can mitigate the negative effect of compensation gap and employee creativity. Research and managerial implications for managers are discussed.

Key Words: Compensation gap, Creativity, Trust climates, Expatriate

1. Introduction

In modern business world, organizational competitiveness relies heavily on employees' creativity, i.e., the generation of both novel and useful ideas (Amabile, 1996). Especially in recent years, the fast extension and growth of multinational corporations (MNCs) call for the local subsidiaries to be innovative in approaching the local market (Scott, Gibbons, & Coughlan, 2010). It goes without saying that innovation in the local settings cannot be accomplished without creative contribution from the local employees (Michaelis, Stegmaier, & Sonntag, 2010; Toh & Denisi, 2003). However, the level of innovation in branches of these MNCs, especially those located in developing countries, is not satisfying. Part of the reason is attributed to the diversified personnel background and multi-track policies, exemplified by the compensation system, which tends to complicate the motivation process in MNCs (Chen, Choi, & Chi, 2002; Leung, Smith, Wang, & Sun, 1996). For example, findings from a stream of studies conducted in MNCs show that compensation gap between expatriate managers and local employees would incur the issue of injustice which diminishes the local employees' working behaviors and attitudes, including job satisfaction, intention to quit, leader-subordinate relationship, and job performance (Chen et al., 2002; Choi & Chen, 2007; Leung et al. 1996; Leung, Wang, & Hon, 2011; Leung, Wang, Zhou, & Chan, 2011; Leung, Zhu, & Ge, 2009). In reviewing these findings, a question arises hereof as whether or not compensation gap, as a consequence of the multi-track policy in MNCs, is associated with the local employees' creativity. However, to our knowledge, none of these prior studies answered this question.

To trace the reason why prior studies did not link up creativity with compensation gap in MNCs, we need to refer to the intrinsic motivation theory of creativity (Amabile, 1996). It is generally agreed in a majority of literature that employees' creativity is positively associated with intrinsic motivation (Amabile, 1998; Oldham & Cummings, 2004). Meanwhile, findings about the effect of external

rewards on creativity showed that extrinsic motivation is an insufficient predictor, or even a “killer” of employees’ creative behaviors (Amabile, Hennessey, & Grossman, 1986; Kruglanski et al., 1971). Despite of this belief, the results from a few studies revealed positive effect of reward on creativity (Eisenberger, Armeli, & Pretz, 1998; Eisenberger, Pierce, & Cameron, 1999; Eisenberger & Rhoades, 2001). As the direct link between pay and creativity did not get consistent support, more recent studies start to look at the specific functional conditions of rewards (e.g., Baer, Oldhama, & Cummings, 2003). For example, Eisenberger and Aselage (2009) found that external rewards stimulate people’s self-determination, which is the result of combined intrinsic and extrinsic motivation (Deci & Ryan, 1985), and consequently, stimulates creativity.

In this study we refer to the equity theory (Adams, 1965) and reflection theory of pay (Thierry, 2001) to depict the relationship between compensation gap and creativity. We learnt from equity theory about the importance of social comparison. It is the relative pay level, rather than the absolute pay, that impact the motivation and related behavioral outcomes. Reflection theory suggests that the meaning of pay goes beyond the traditional belief about its materialism function and reflects the images of employees’ status, power and value within the organization (Salimäki, Hakonen, & Heneman, 2009). Accordingly, in this study we examined the meaning of pay difference and related that to the employees’ creativity. In this sense, we set our study in a multinational context where we can examine the impact of compensation gap between expatriate managers and local employees on the latter’s creativity.

2. Theory and Hypotheses

2.1 Compensation Gap and Creativity

Compensation gap between the expatriates and the local employees is a result of globalized operation in which the expatriates working in a foreign country are paid at the home country rate. As the local employees are paid with reference to the local labor market which is usually much lower than the home country where the expatriates come from, pay difference between the expatriates and the local employees becomes salient (Paik, Parboteeah, & Shim, 2007; Toh & Denisi, 2003). A study of Chen et al. (2002) reports the income of American expatriate was up to several times of their local Chinese counterparts.

Prior studies reported destructive results of such significant compensation gap among the local employees, including reduced job satisfaction, low organizational commitment, poor performance, increased turnover, and destroyed interpersonal relationships (Choi and Chen, 2007; Leung et al., 1996; Leung et al., 2011; Toh and Denisi, 2003). But to our knowledge, there has been no research revealing the relationship between compensation gap and creativity. Considering the important role of local employees in promoting innovation within MNCs, it is worthwhile to examine the impact of pay difference on local employees' creativity. We referred the equity theory (Adam, 1965) and the reflection theory of pay (Thierry, 2001) to interpret this relationship.

According to the equity theory (Adam, 1965), the motivation effect of pay partly relies on comparison of the focal person's outcome-input ratio with a referent in the organization. Dissimilarity of the ratio causes the feeling of unfairness and leads to dissatisfaction about the pay. When people find inequity in the pay system, they may choose to repair the imbalanced situation by means of adjusting their input or influence the outcome until the ratio is comparable with that of the referent. Taking this theory into the expatriate work settings, the local employees tend to take their expatriate counterparts as

the subject of comparison. In fact, the distinct identity of foreign cultural background makes these expatriates outstanding social referent for the local employees. The salient pay difference between the expatriate and the local employees easily arouses distributive unfair perception among the local employees (Chen et al., 2002; Leung et al., 1996). As proposed by the equity theory, since it is difficult to influence the outcome of distribution, individual employees tend to reduce their working efforts in order to achieve a fair ratio between their input and outcome.

Compared with routine job behaviors, generating creative outcomes requires more effort from the employees in collecting and learning extra knowledge (Amabile, 1996). Meanwhile, creativity is often risky because of the potential challenges and resistance in the organizations (Janssen & Van Yperen, 2004). Moreover, creativity means deviation from the present practices, which may lead to loss and failure (Lu, Lin, & Leung, 2012). These characters make the practice of creativity highly demanding-it generally requires more efforts, courage and persistence from the employees. However, as argued above, due to relatively lower income compared with the expatriates, the inequity perceived by the local employees incurs the response of withdraw of efforts from the local employees (Paik et al., 2007). When it is not easy to quit from the tasks required in routine job performance, they tend to choose withdrawing from creative performance as a major way of reducing input and in this way achieving comparable input/output ratio with their expatriate counterparts.

Additional explanation for the relationship between compensation gap and creativity is based on the reflection theory of pay (Thierry, 2001). This theory enriched meanings of pay by suggesting that pay reflects not only the economic exchange between the employer and the employees, but also the images of status, relative power, position and value in the organization. Pay also reflects the control one can exert on the working context and coworkers at the workplace (Thierry, 2001, 2002). The reflection theory of pay offered us a different perspective to look at the relationship between

compensation gap and creativity. The meanings reflected by the pay system impact the employees' social identity and self-determination (Hakonena, Maaniemia, & Hakanen, 2011), which compose the intrinsically motivation component for creativity (Amabile, 1996). The lower pay of local employees relative to the expatriates signals inferior status of local employees and their expected weaker influence on the organization. In practice, the success of MNCs is often counted on the shoulders of the expatriates (Elenkov & Manev, 2009), and the potential contribution of local employees has been underestimated and overlooked (Toh & Srinivas, 2012). Given the fact that creativity demands additional effort, risk-taking courage, and intrinsic motivation, local employees tend to be discouraged to generate novel work behaviors or to promote any ideas to change the status quo of the organization.

To sum up, based on equity theory and reflection theory, we propose that the relative lower pay of local employees as a result of the compensation gap would lead to reduced effort and discouraged risk-taking of the local employees, which will negatively impact their creative behaviors.

Hypothesis 1. Perceived compensation gap between the expatriate and the local employees is negatively related to the local employees' creativity.

2.2 The Moderating Effect of Trust Climate

Despite the well-recognized negative effect of compensation gap (e.g., Chen et al., 2002; Leung et al., 2009) in expatriate context, it may not be easy to remove the gap in a short term because of the strategic reliance on expatriates and the related human resource facilitation in response to the globally imbalanced economic development. Therefore, it is meaningful to examine the contextual factors that can reduce the negative effect of compensation gap. Prior studies found moderating effect of trust in situations of unfairness (van den Bos, Lind, & Wilke, 2001). Leung and colleagues (2009) conducted a study among Chinese MNCs and their findings showed that trustworthiness of the expatriate mitigates the effect of perceived pay injustice. Specifically, trustworthiness felt by the local employees buffers

their negative attitude towards the expatriates which is incurred by unfair distribution within the organization. We extend from these studies and examined the moderating role of trust in the relationship between compensation gap and creativity.

Trust is defined as the willingness of a person “to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (Mayer, Davis, & Schoorman, 1995, p. 712). When trust is used to depict interpersonal relationship, it is usually classified into cognitive trust and affective trust (McAllister, 1995). Cognitive trust is based on rational perceptions and evaluation about the competence or trustworthiness of trustees. Affective trust derives from affective exchanges between trustors and trustees and it is evaluated according to the emotional evaluation of trustworthiness.

In this study, instead of focusing on the one-to-one interpersonal trust, we examined trust climate as a contingent factor in the relationship between compensation gap and creativity. By trust climate we mean the collective perception of local employees about the trustworthiness of the expatriate in their work settings. We adopted this collective-level trust for two major reasons. First, considering the nature of compensation gap, local employees perceived the difference between their income and the expatriates as a systematic rather than personal issue. In other words, the distributive injustice reflected in the compensation difference is an organizational phenomenon. Therefore, the extent to which compensation gap may influence their creative outcomes is subject to the contextual relationship between the local employees and the expatriate. Second, in generating creative outcomes, employees need to refer to their coworkers around to get feedback, which enhances their knowledge collection and cognitive stimulation (De Stobbeleir, Ashford, & Buyens, 2011). The context-dependent feature of creativity makes the employees sensitive about the trust climate in the organization.

The function of cognitive trust climate in the relationship between compensation gap and creativity can be traced back to the equity theory (Adam, 1965). As discussed above, when the local employees perceive lower-level pay compared with the expatriates, they tend to reduce their efforts at work. But under conditions when they have developed high-level cognitive trust towards the expatriate, i.e., after working together for some time, they perceive the expatriate counterparts as competent and cognitively reliable, they tend to add weight on the expatriate's potential input to the organization. Perceived cognitive competence of the expatriates may also stimulate the local employees to take efforts in bringing about creative ideas and behaviors at work. In this way, the negative effect of perceived unfairness from the compensation gap would be cushioned.

Similarly, we also argue that high-level affective trust climate in the expatriate context works to mitigate the negative relationship between compensation gap and creativity. Affective trust is an important factor that can explain the variance of organizational and interpersonal effect (McAllister, 1995). Affective trust is a result of social exchanges in frequent interactions. After working together for some time, if the local employees have developed affective trust toward the expatriate coworkers, they tend to take the expatriates as "in-groups" rather than "out-groups". Accordingly the relational tension between the local employees and the expatriates is released. Close interpersonal relationship with the expatriates extends the local employees' social ties in the organization and works to promote information sharing between the local and the expatriates (Toh and Srinivas, 2012). Also it draws them closer to the decision-making process of MNCs. The improved interpersonal relationship will help local employees to reconsider their status in the MNC. Moreover, intimacy with the expatriates will also give them chances to understand the pay system, including the benefits in the expatriate's compensation package used to compensate their sacrifice in working in a foreign country. All of these

factors, including improved status and better understanding of the pay system, will reduce the negative effect of compensation gap.

To sum it up, we developed the hypotheses as below.

Hypothesis 2. Cognitive trust climate moderates the negative relationship between compensation gap and creativity such that the negative relationship is weaker when the cognitive trust climate about the expatriate is high.

Hypothesis 3. Affective trust climate moderates the negative relationship between compensation gap and creativity such that the negative relationship is weaker when the affective trust climate about the expatriate is high.

3. Method

3.1 Sample and Procedures

The sample included 298 employees and 44 supervisors working in hospitality industry in Hangzhou, China. These firms are international joint ventures and wholly-owned subsidiaries of multinational corporations (MNC) operating in this region. We first contacted the human resource manager in each company and invited them to participate in our research survey, which was described in general terms as being part of a project examining human resource management processes in MNC in China. With the help from these HR managers, data were subsequently collected from 44 team supervisors. Each team supervisor then distributed questionnaires to all of the individual members of their teams and employees were allowed to decide whether or not they would participate in the study. The respondents received a cover letter explaining the study, a questionnaire, and a return envelope. Each questionnaire was coded with a researcher-assigned identification number in order to match employees' responses with their immediate supervisors' evaluations. To ensure confidentiality, the

respondents were instructed to seal the completed questionnaires in the envelopes and return them directly to the researchers. The sample size in each firm ranged from 6 to 12 employees, with a mean of 7.

Among the 298 local employees, about 53% were male. The age distribution was 57% for ages 20-29 and 38% for ages 30-49, while the rest were over 49. Less than half the respondents (41%) had a bachelor's degree or higher, while the remaining had a secondary-level or lower education. All the respondents were low-level employees. All of the respondents had close contact with their expatriate supervisors during working hours, and all reported directly to an expatriate supervisor or manager. Approximately 32.5% of respondents had worked with their expatriate managers for less than a year, 66.3% for 1-5 years, and 1.2% for more than 10 years. Of the expatriate managers with whom the respondents had the most contact, about 82% were male; 68.1% had been in China for 6 years or more, and 85.2% had been with their current company for at least 5 years. With regard to age, 10% were aged 20-29, 74% were aged 30-49, and the rest were over 49. In terms of educational background, 56% had a bachelor's degree or higher, and the rest had some college or secondary-school education. Looking at their national origin, 38.3% of the expatriate managers were from Europe, 30.1% from North America, 21.7% from Hong Kong or Taiwan (Note: In Mainland China, employees from Hong Kong and Taiwan were employed and compensated as expatriates.), and the rest from other Asian countries.

3.2 Measures

Unless otherwise indicated, a seven-point Likert scale was used for all study measures, with 1 representing "strongly disagree" and 7 representing "strongly agree". Two different questionnaires were prepared for team supervisors and their subordinates. Individual employees were asked to answer questions covering perceptions of compensation gap between locals and expatriates, and members of a team responded to measures of team climate of cognitive trust and affective trust towards their

supervisors. Team supervisors were asked to rate employees' creativity. Compensation gap and employee creativity were measured at the individual level, while the two trust climate were measured at the team level.

3.2.1 Compensation gap

Chen and colleagues (2002) constructed two items to measure the magnitude of the compensation gap between the locals and the expatriates in a Chinese context. We adapted the two items measuring the extent to which locals' perceptions of their compensation differed from that of their expatriate counterparts. Based on the above two items, we also developed two more items to measure compensation gap. Item 1 asked "Do you think that the difference between the salary of expatriates and locals who hold a similar position is reasonable?" and responses were collected using a scale ranging from 1 (strongly unreasonable) to 7 (strongly reasonable). Item 2 asked "Do you think that the difference in the salary of expatriates and locals who hold a similar position is acceptable?" with responses collected using a scale ranging from 1 (strongly unacceptable) to 7 (strongly acceptable). Item 3 asked "Do you think that the difference between the salary of expatriates and locals who hold a similar position is fair?" with responses collected using a scale ranging from 1 (strongly unfair) to 7 (strongly fair). Item 4 asked "Do you think that the difference in the salary of expatriates and locals who hold a similar position is satisfactory?" with responses collected using a scale ranging from 1 (strongly unsatisfactory) to 7 (strongly satisfactory). The coefficient alpha of this four-item scale was .80.

3.2.2 Cognitive trust and affective trust climate

We adapted McAllister's (1995) scale with five items measuring each of cognitive and affective trust. Sample items for cognitive trust included "In my team, our expatriate supervisor is hard working and reliable" and "According to our expatriate supervisor's work performance, we are confident in

his/her job ability.” Sample items for affective trust were “In my team, we are confident that our expatriate supervisor will give us constructive suggestions when we discuss our difficulty with him/her” and “In my team, when we have a difficulty, we will inform our expatriate supervisor and know that he/she is willing to listen.” The coefficient alpha of climate for cognitive trust was .75, and affective trust .79.

3.2.3 Employee creativity

We assessed employee creativity using the 13-item developed by Zhou and George (2001) and applied by Zhang and Bartol (2010) in Chinese sample. Sample items include “This employee suggests new ways to achieve goals or objectives” and “This employee comes up with new and practical ideas to improve performance.” The alpha coefficient of this scale was .85.

3.2.4 Control variables.

Due to potential effects of various demographic variables on employee creativity (Zhang & Bartol, 2010), we controlled for age, gender, education, organizational tenure, team size, and firm size. Age and organizational tenure were self-reported years. A dummy variable was used to measure gender (0=male; 1=female) and education level (0=below college; 1=college or above).

3.3 Analyses

We performed confirmatory factor analyses (CFAs) to investigate the discriminant validity of the factor structures of cognitive trust and affective trust climate with the unit and group referent. Overall model fit was assessed by the comparative fit index (CFI), the incremental fit index (TLI), and the root mean square error of approximation (RMSEA; Browne & Cudeck, 1992). Because we measured the two trust variables at the team level, we also conducted an analysis of the level of agreement among team members for each construct. Specifically, we compared the median inter-rater agreement (R_{wg}) scores and the intra-class correlation coefficient (ICC[1] and ICC[2]) statistics, expecting higher

agreement on the unit-focused climate and group-focused leadership scale than on the individual-focused variables. Bliese (2000) suggested that ICC[1] values close or above .20 indicate a desirable level, and Glick (1985) suggested that ICC[2] values should be over .60.

3.4 Results

To assess discriminant validity, we first conducted a CFA on the items comprising the contextual variables of cognitive trust and affective trust climate. Two baseline models were computed ($N=298$). Results showed good fit for the two-factor model, where all items loaded on their intended constructs ($\chi^2 = 163.48, df = 32, p < .01; CFI = .98; TLI = .97, RMSEA = .06$). Next, we computed a one-factor model—where all items were constrained to load on a single factor—and yielded a poor fit ($\chi^2 = 531.62, df = 57, p < .01; CFI = .62; TLI = .61, RMSEA = .09$). The hypothesized two-factor model better fits these data than the one-factor model ($\Delta\chi^2=368.14, \Delta df=25, p < .01$). These results supported the discriminant validity of the two trust climate and the individual scales.

Table 1 presents the means, standard deviations, and correlations among all the variables. As expected, perceived compensation gap was negatively related to local employees' creativity ($r=.28, p < .01$), while cognitive trust climate ($r=.19, p < .05$) and affective trust climate ($r=.23, p < .01$) were positively related to creativity.

Insert Table 1 about here

3.4.1 Level of analysis

Since employees were nested within the supervisor of a group and in work units, we used hierarchical linear modeling (HLM) analyses with the software HLM 6.06 to test all hypotheses (Raudenbush, Bryk, Cheong, & Congdon, 2004). The first task of a hierarchical analysis is to show significant within-group agreement on the two trust climate. The median inter-rater agreement coefficients (r_{wg} ; James, Demaree, & Wolf, 1993), for the two group-level variables – cognitive trust

climate (.72) and affective trust climate (.80) – indicated high inter-rater agreement. A one-way analysis of variance (ANOVA) for each of these variables indicated that the between group mean square was significantly higher than the within-group mean square. The ICC[1] values were .25 for cognitive trust climate and .18 for affective trust climate. The test statistics (F -ratios) associated with the ICC[1] values of these two variables were statistically significant. The ICC[2] values were .70 for cognitive trust climate and .74 for affective trust climate. These values supported aggregating the two trust climate to the group level.

3.4.2 HLM Results

Null model. Before any cross-level effects were examined, we needed to establish that there was significant between-group variance in the dependent variable. We examined a null model with no level-1 or level-2 predictors for creativity ($\tau = .21, p < .01$). The significant effect justified the examination of group-level effects for creativity. In addition, ICC[1] values indicate that 25% of the variance in creative performance resided between groups ($\chi^2 = 132.84, p < .01$). A series of hierarchical linear models were then evaluated to test the cross-level hypotheses.

Individual-level predictor. Hypothesis 1 predicted that employees' perceived compensation gap between the expatriate and the local employees is negatively related to local employees' creativity. We estimated a level 1 model for the dependent variable, with no level 2 predictors. Consistent with Hypothesis 1, results in Table 2 (Model 1) indicate perceived compensation gap was negatively related to employee creativity ($\gamma = -.41, p < .01$). This result presented that local employees perceived the compensation difference between locals and expatriates as unfair and that would be associated with reduced creativity. Therefore, Hypothesis 1 was supported.

Trust climate. We estimated a set of intercepts-as-outcomes models to test the main effects of the two climate of trust. Employees' perceived compensation gap was treated as a level-1 predictor and the

intercept coefficients obtained from level 1 were regressed onto the two trust climate. As shown in Table 2, our data yielded main effects for each of the trust climate: cognitive trust climate (Model 2: $\gamma = .37, p < .01$) and affective trust climate (Model 2: $\gamma = .42, p < .01$) were significantly and positively related to employee creativity. Cognitive trust climate and affective trust climate accounted for 24%, and 36% of the between-group variance in creative performance, respectively.

Insert Table 2 about here

Cross-level interactions. A set of slopes-as-outcomes models were examined to evaluate the cross-level interactions. Hypothesis 2 predicted that cognitive trust climate buffer the negative relationship between employees' perceived compensation gap and their creativity. Because perceived compensation gap was a significant level-1 predictor and the two group-level trust variables were significant level-2 predictors as mentioned above, we proceeded to test the cross-level interactions. Results in Table 2 (Model 3) indicate that cognitive trust climate initiated by expatriate managers does moderate the effect of perceived compensation gap on employee creativity. Consistent with Hypothesis 2a, the level-two predictor for the effects of cognitive trust climate on the slope of compensation gap was significant for creativity (Model 3: $\gamma = .33, p < .01$). Cognitive trust climate explained 16% of the between-group variance in the effects of perceived compensation gap on creativity. We plotted this moderating effect in Figure 2. It presents that when cognitive trust climate initiated by expatriate managers was low (1 standard deviation below the mean), perceived compensation gap was negatively related to employee creativity, whereas when cognitive trust climate was high (1 standard deviation above the mean), the negative relationship was leveled out. Thus, Hypothesis 2 was supported.

Insert Figure 2 about here

Hypothesis 3 predicted that affective trust climate initiated by expatriate managers will buffer the negative relationship between perceived compensation gap and employee creativity. Results in Table 2 (Model 3) are consistent with Hypothesis 2b that the coefficient for affective trust climate as a level-two predictor of the slope of perceived compensation gap was significant when employee creativity was the dependent variable (Model 3: $\gamma = .36, p < .01$). Affective trust climate explained 21% of the between-group variance in the effects of perceived compensation gap on employee creativity. Figure 3 presents this moderating effect in which high and low levels are depicted as one standard deviation above and below the mean, respectively. The negative relationship between perceived compensation gap and employee creativity was weaker when affective trust climate initiated by expatriate managers was high (Figure 3). Therefore, Hypothesis 3 was supported.

Insert Figure 3 about here

4. Discussion

In this study, we developed a cross-level model that integrates the equity theory and the reflection theory of pay to examine the relationship between compensation gap and creativity in an expatriate context. We believe the findings make several contributions to the literature. First, although a number of past studies have found the effect of expatriate-local compensation difference on local employees' work outcomes (e.g., Chen et al., 2002; Choi & Chen, 2007; Leung et al., 2009; Leung et al., 2011), this is the first study to examine the relationship between compensation gap and the local employees' creativity. The negative relationship found also extends from the past creativity studies which focused on the direct effect of external rewards on creativity (e.g., Amabile et al., 1986; Eisenberger et al., 1998). We provided theoretical explanation from two perspectives for this negative relationship. Firstly, based on the theory of equity, local employees tend to withdraw their efforts in being creative as a result of underpayment, compared with the expatriate counterparts. Second,

according to the reflection theory of pay, we posited that in an expatriate context the compensation gap between expatriate and local employees signals a lower expectation from the Headquarter for the local employees than that on the expatriates in terms of generating significant changes within the organization. In other words, local people are reluctant to be creative because they infer from the imbalanced pay system the information that, unlike the expatriates, they are not expected to make changes within the organization. This finding also lends support to the creative role identity theory (Tierney & Farmer, 2011) in that the meaning of pay structure within the organization can be enriched to reflect varied roles assigned to the employees for bring about creative performance.

Second, the findings of trust as a moderator suggest a contextual boundary for the negative relationship of expatriate-local compensation gap. It was revealed that climate of cognitive and affective trust toward the expatriate can reduce the negative effect of compensation disparity on creative actions. Specifically, if employees believe that they their expatriate colleagues are trustworthy and friendly, or if they are capable of performance, willing to share information, and including them to make decisions, then the negative relationship will be mitigated as the local employees will re-evaluate their input/output ratio, better understand the expatriate as a person and the organizational pay policy as a system. These results are meaningful in that they shed some light on the operational facet of multinational human resource management.

Moreover, this study contributes to the literature by integrating compensation system and employee creativity in a cross-level framework in the hospitality context. We examine individual-level (compensation gap) and team-level concepts (climate of cognitive and affective trust) and the impact of cross-level interactions on employee creativity. International management research is increasingly focusing on the role of context within an organization (e.g., Rousseau & Fried, 2001), and the multilevel approach provides an important way of conceptualizing and measuring contextual variables

predicting creativity in a firm (Zhou & Su, 2010). Environmental factors such as team climate and organizational culture are purposefully implemented by an organization, which influence employees' collective beliefs and actions, have significant firm-wide implications.

5. Managerial Implication

Success of MNCs relies heavily on sustainable innovation. Not only expatriates at senior level but also local employees play critical roles in this process of organizational innovation (Elenkov & Manev, 2009). Especially in the field of hospitality where competitive advantage is gained through the employees' delivery of high quality services (Robinson & Beesley, 2010), creative behaviors from low-level local employees are called on to achieve customer satisfaction.

Results from this study showed that compensation gap between expatriate and local employees, a well-seen phenomenon of MNCs in developing countries, may become a partial explanation for the unsatisfying level of creativity among local employees. In human resource management practice, the relatively high-level pay of expatriates may be reasonable considering the home country pay level and allowance used to compensate their personal and family sacrifice in adjusting to a foreign living period. However, the pay difference perceived by the local employees also signals discriminate treatment and result in withdrawal of job efforts from the local employees. Personnel localization may be a choice for these MNCs to remove the problem caused by pay difference. But the process may be long and painful.

What we can learn from the result that there are some measures at the organizational or managerial level to reduce the negative effect of compensation gap. We specifically suggest that expatriate managers should be selected and trained to be capable of establish trust climate among the local employees. The trust can be based on the professional competence and interpersonal respect and relationship. As shown in this study, trust climate in the expatriate context can directly bring about

positive effect on creativity. And in the case of compensation gap, trust climate plays significant role in buffering the negative effect of pay difference on local employees' creativity.

6. Limitations and Future Research

This research has several limitations that should be addressed in future research. First, the cross-sectional study raises the issue of causality. A longitudinal design would be preferable to a cross-sectional design because it allows researchers to trace patterns of change over time, causal direction, and reciprocal relationships (Williams & Podsakoff, 1989).

Second, although employees' creative performance was rated by supervisors, the trust climate measures were self-reports at the group level. Future studies may include additional objective measures of contextual variables such as coworkers and other organizational members.

Third, although we proposed the negative effect of compensation gap on creativity with reference to the equity theory and reflection theory of pay, we did not examine the working mechanism due to our study defined scope and focus. We encourage future studies to go further and find the factors that can mediate the effect of compensation gap on creativity.

Finally, while our theorizing is not tied to any specific organizational or cultural context, the data were collected in China, so we cannot justify the issue of generalizability. We believe MNCs in China can represent a variety of social context, culture, and organizational climate as China has attracted large investment from foreign countries in the past thirty years. But we realize that it is still important to replicate our findings in different contexts.

7. Conclusion

When creativity becomes the core competence of companies competing in a global market, it is worthwhile to examine driving forces as well as barriers for employees to think and behave creatively in specified organizational settings. This current study helps us to understand the negative relationship

between compensation gap and local employees' creativity. If the local employees perceive and accept an inferior status in MNCs, they tend to stay satisfied with performing routine jobs, but stay unwillingly to take initiatives to change the organization. This will frustrate effective adaptation and expansion of MNCs in diversified social context. This study suggests that development of trust climate will be an alternative for the MNCs to relieve the tension between their expatriates and the local, and more importantly, to stimulate and facilitate creativity of local employees.

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Table 1
Means, Standard Deviations, and Correlations

Variable	Mean	s.d.	1	2	3	4
1. Compensation gap (individual level)	2.93	.78	-			
2. Creativity (individual level)	4.62	.65	-.28**	-		
3. Cognitive trust (team level)	4.75	.72	-.26**	.19*	-	
4. Affective trust (team level)	5.28	.63	-.21**	.23**	.35**	-

Note. $N = 298$.

* $p < .05$.

** $p < .01$.

Table 2
HLM Results for the Moderating Effects of Trust Climate and
Perceived Compensation gap on Employee Creativity

Variable	Employee Creativity		
	Model 1	Model 2	Model 3
Level 1			
Intercept	8.45 (.05)***	10.23 (.04)***	10.06 (.04)***
Age	-.20 (.06)*	-.19 (.07)	-.23 (.07)
Gender	-.17 (.08)	-.20 (.09)	-.19 (.09)
Education	-.09 (.07)	-.07 (.06)	-.08 (.06)
Organizational tenure	-.35 (.05)*	-.32 (.04)*	-.29 (.04)*
Perceived compensation gap (Gap)	-.41 (.09)**	-.40 (.07)**	-.38 (.08)**
Level 2			
Team size		-.05 (.10)	-.04 (.10)
Firm size		-.08 (.13)	-.06 (.12)
Cognitive trust climate		.37 (.11)**	.34 (.11)**
Affective trust climate		.42 (.14)**	.40 (.14)**
Cross-level effects			
Gap × Cognitive gap climate			.33 (.08)**
Gap × Affective gap climate			.36 (.09)**
Total R^2	.42	.59	.31

Note. N (individuals) = 298. N (organizations) = 44. The first value in a cell is the parameter estimate, and the value in parentheses is the standard error.

* $p < .05$;

** $p < .01$;

*** $p < .001$.

Figure 1
The Proposed Multi-Level of Compensation Gap Model

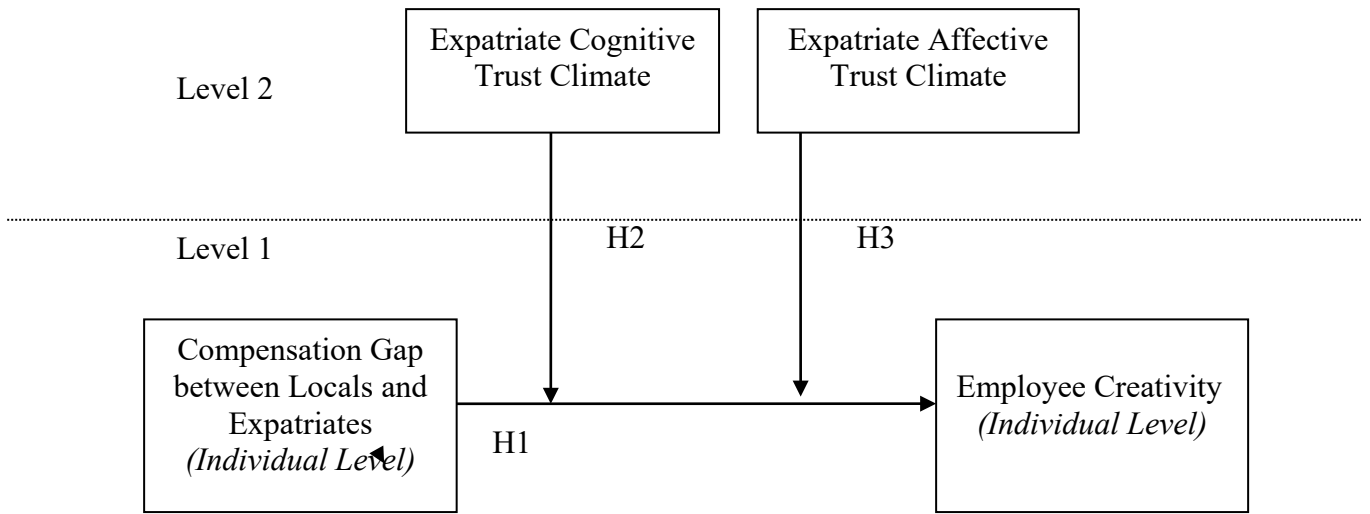


Figure 2

Cross-Level Moderating Effect of Cognitive Trust Climate

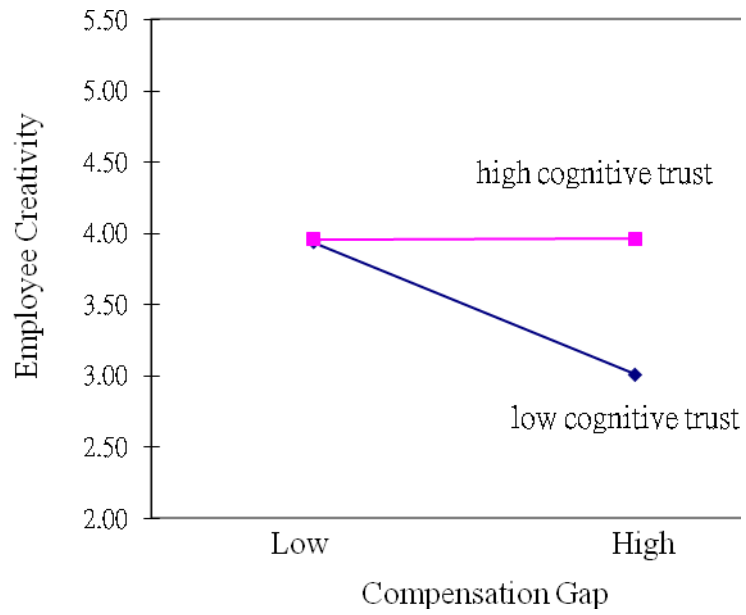


Figure 3

Cross-Level Moderating effect of Affective Trust Climate

