Renaissance in Rewards:
A Historical Preface and Comparative Analysis
Of Contemporary Pay Practices

by

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OVERVIEW

Contemporary reward practices may be described as complex, diverse and in a state of dynamic change (Dowling et al., 2008). Any analysis of the broad range of rewards practiced by firms in Europe (and around the world) will require a certain level of reductionism. In order to present a meaningful but parsimonious analysis, we present our paper in two sections. First, a tri-part, historical sketch of dominant themes in European pay practices is outlined. The first element of the preface emphasizes the closed, closely held, institutionally prescribed set of pay practices characterizing the post WWII period until the mid 1970s. Second, we present a period of dynamic change in pay practices from the 1980s until the year 2000 or so. This second period is characterized by the spread of a set of universalistic, often US based set of “best practices” of pay – emphasizing standardizing pay across regions and industry, individualistic, hierarchical pay models with competitive, outcome based pay logic. Finally, we outline a third period, a synthesis of the two previous forms, beginning in the early 1990s and continuing to characterize many contemporary practices. These three stages overlap, as criticisms of the dominant reward philosophy of the moment may extend over a decade and the dominant philosophy will not change overnight.

This brief “historical preface” sets the stage for a contemporary analysis of total rewards and a proposed analytical framework to support further developments of research into comparative rewards. The contemporary analysis draws heavily from extant empirical research.

PART ONE: A Historical Preface

I “A Closed Arcadia”

Pay practices across Europe (and around the world) between 1945 and the mid to late 1970s may be characterized by the imagery of the forest. Closed (lacking transparency), complex, historically grown, organic and often idiosyncratic pay forms vary tremendously across national borders, across industries and across firms. Strong local institutional contexts
dictate pay practices. Pay decisions may be delimited by legislation, long-term national or industrial level contracts, or by the inflexibility of dominant unions and the viable threat of crippling industrial action. Tariffs and treaties may also contribute to effectively create national product and labour markets. This is the specific reward context that Bartlett, Ghoshal and Beamish (2008) might relate to an emphasis on “local customization” – the idea that local institutional contexts make appropriate reward practices for each firm or industry more or less unique. These deep, dark “forests” are closed, in that a limited number of institutional leaders in business and government privately coordinate these institutional processes to determine the allocation of rewards.

From the mid 1960s until the early 1980s two forces combined to challenge this dominant approach to rewards. First, US based multinational enterprises (MNEs) and consulting firms brought their own Tayloristic “logic” to European operations. US based pay practices were the focus of conversations in boardrooms, universities and the halls of government. The argument was made that the expanding American economic engine was fuelled partly by the “best practices” of strategically linked, competitively flexible, cost sensitive, individually centred and production based “total rewards” (Balkin and Gomez-Mejia, 1987; Dooher and Marquis, 1950; Mahoney, 1979). Simultaneous to this growing chorus we see cracks in the closed institutionalist order. An increasing awareness of the toughness of global competition and the dismantling of many tariffs and legislative boundaries (first within Western Europe and then around the world) combined with very public failures by planned economies (West and East) to meet economic and social targets, productivity declines, crippling industrial action and declining standards of living. Paradoxically, these conflicting forces also triggered two very different reactions; many firms and governments began to look favourably at adopting US based pay practices, while at the same time, stimulating the development of a stronger European Union to act as an alternative to US hegemony (Costin, 1996; Gauron, 2000).
II “The Dogma”

Accelerating with the “Thatcherite” revolution of 1979 in the U.K and Reagan’s increasingly strident and public argument that government is the problem and not the solution in terms of economic growth, many countries set about “liberalizing” their institutions and reduced or softened protectionist legislation and regulatory processes. In the mid 1980s socialist planned economies teetered on the brink of economic and philosophical bankruptcy and in 1989 the political reconstitution of Central and Eastern Europe (CEE) was seen by some free market zealots as the final word of the “scientific truth” of the superiority of free markets and unfettered capitalism.

What forms of reward practices are better suited to this new globally competitive environment than those “best practices” that have so long been practiced by the “winners” of the Cold War? This fundamentalist dogma of standardized, universally applicable rewards may be seen in the imagery of uniformed ranked rows of a single crop. The Arcadian forest of localized pay practices is to be swept away and replaced by planting standardized rows in open fields; rewards are to consist of individually focused, competitively/strategically linked, total rewards. Only these systems will be able to maximize the economic motivation for actors in the economy and optimize the firm’s global position. Philosophies, systems, practices and forms may be imported wholesale into all of Europe. This is the specific reward context that Bartlett, Ghoshal and Beamish (2008) might associate with “global standardization”.

Once again, dominance triggers dissent. Globally standardized rows of best pay practices were being planted across all of Eastern and Western Europe in the 1990s while forces of opposition were heard and articulation of the concerns were developed. Pan European codifications from the Single European Act (SEA) of 1987 and the Maastricht Treaty of 1992 triggered a widespread discussion of what comprises a “Euro-manager”. (Barham and Oates, 1991). The unfettered promises of rapid economic development and
utopian standards of living thought to be associated with the dogma of free markets failed to materialize. The social costs of privatization – sweetheart deals, inflation, tax base erosion and faltering social support networks – as well a rising nationalistic impulses and concerns for fragile local heritage and a local identity seemingly lost in a global pursuit of “the American dream” became apparent to social and political observers.

In the early 1990s, an academic discussion began questioning the universality of US based HR models and practices. Researchers argued for considering the importance of institutionally linked HR systems (Brewster and Bournois, 1991; Brewster, Mayrhofer and Morley, 2004). This argument built as doubts crept in to the dogma of universalistic standardization. There may be very good economic reasons for collective (as opposed to individual) bargaining for wages, paying based on factors other than short-term market indicator triggers, or even for the coordination of pay and reward policies across nations or within an industry.

III “Renaissance”

Starting in the mid 1990s and continuing on until today, many firms within Europe (and around the world) attempted to balance a concern for institutional realities with the dynamics of free markets. These hybrid reward systems acknowledge the parameters of national and regional institutional heritage while incorporating some elements of globally standardized pay (Festing, Eidems, and Royer, 2007; Dowling et al. 2008) – for example a more externally competitive focus to pay, increased transparency and accountability connecting pay practices to firm and societal outcomes, and a movement from rewards as wages to the broader conceptualization of “total rewards”.

The imagery of this final stage is found in a patchwork of fields, each field surrounded by trees comprising institutional “windbreaks” to reduce the harsh effects of the unconstrained winds of free market booms and busts on firms, industries and economies. Each national, industrial or regional field is more open to efficiencies or some standardization,
but the local competitive and historical terrain is taken into account when determining the most locally appropriate mix of reward practices. Sustainability – the long-term social, political, ecological and economic development of the region – is at least as important a short-term market efficiency.

Note this renaissance is not a wholesale return to Arcadia, no more than the 15th century renaissance was a return to the classical world of Greece and Rome. Rather the pay system is a new and vibrant combination and synthesis of the two previous forms. It is this form we now describe in the following section.

PART TWO: An Analytical Comparison

Despite the importance of the field of compensation and rewards, the topic of international or comparative rewards is still an underdeveloped area. It is part of comparative management research, an objective of which is to “identify aspects of organizations which are similar and aspects which are different in cultures around the world” (Adler, 1984: 32).

An objective of this contribution is to build on this knowledge and to draw a holistic picture of comparative rewards considering the various practices, the prevalent theoretical explanations and methodological approaches as well as the limited empirical evidence. Main research questions include: What are the differences in approaches to compensation in international contexts, how can these differences be explained and what are the limits for the international best practices in certain national contexts or what is the space for global standardisation of compensation practices? For a descriptive analysis illustrating our results we will use selected data so kindly provided by Hewitt Associates.

Understanding Total Rewards

Recently, there has been an increased attention to the total compensation approach in the international context in the academic (Milkovich and Bloom, 1998; Milkovich and Newman, 2008) – as well as in the practitioner literature (Hewitt Associates, 1991; Milkovich
and Newman, 2008; White, 2005). In fact, Hewitt Associates (1991) have already used the total compensation approach in an international context in 1991. Manas and Graham (2003) define total compensation as a part of total rewards, which includes extrinsic and quantifiable elements of total rewards: fixed and variable pay, benefits and perquisites (see Figure 1).

The importance of nonmonetary compensation elements in national and international contexts could be presented by their relative weight in the total remuneration package. For example, according to the assessment of the Institute of German Economy, the compensation for hours worked in Germany (including variable pay) accounts for about 76% of total cash compensation package, excluding employers’ social security contributions and training costs (Figure 2).

The figure shows that compensation for time not worked accounts for nearly 17% of the total pay. Performance neutral bonuses (for example the Christmas bonus or the 13th salary) are often a part of the employment contract and account for about 7% of total pay.

A strong argument in favour of using the total compensation approach for international comparisons of the pay structures is the substitutive effect between the monetary (wages or salaries, incentives) and non-monetary (benefits and perquisites) elements of pay, which may vary significantly between different countries and cultures. This broader conceptualization of total compensation ensures more objective comparisons of compensation packages. For example, in multinational enterprises (MNE) it can be used as an important instrument to benchmark pay systems around the globe, either to install external competitiveness or to promote internal consistency. Furthermore, the total compensation approach can be instrumental in ensuring strategic flexibility necessary to operate in multiple institutional environments (Gross and Wingerup, 1999; Milkovich and Bloom, 1998; White, 2005). However, although intrinsic rewards constitute an important part of employment relations and
play an important role as motivators, it is very difficult to express these factors in monetary terms other than merely pointing out the employers’ costs (e.g., for training). Given this definition of total rewards, we will concentrate on the total remuneration concept in the remaining part of the paper (further referred to as total compensation).

The National Context as a Major Determinant of Pay Practices

Research on the determinants of pay practices is rich. Milkovich and Newman (2008) have identified four groups of factors explaining the variations in compensation designs: institutional, economic, organizational and employee pressures (see also Gerhart, 2008). These four groups of factors can be summarised in three levels of analysis featuring individual (employee), organizational and environmental (economic and institutional) factors. Figure 3 presents examples of the parameters included in each level. While we will briefly discuss how individual and organizational factors influence compensation decisions the focus clearly is on the impact of the environmental factors, as these issues matter most in comparative rewards. However, taking this simplifying approach, we do not deny the interrelationships between the mediation of national effects for example through organisational practices and thus multi-level effects (Bowen and Ostroff, 2004; Brewster, Sparrow and Vernon, 2007).

The first level of analysis deals with individual preferences and expectations of employees that influence compensation decisions. According to Milkovich and Newman (2008), negative perceptions of pay-related organisational fairness result in absence and turnover of employees. This points to the relative nature of the justice perception of pay (Milkovich and Newman, 2008). The pay levels and structures are compared to those of the social referents chosen by an individual. For instance, Kulik and Ambrose (1992) have identified a variety of personal characteristics that determine the process of referent selection:
gender, race, age, position and professionalism. Furthermore, situational factors such as job facet comparison, changes in allocation procedures and physical proximity (Kulik and Ambrose, 1992) may deliver additional insights about the perception of justice in international context.

In today’s globalised economy, supported by sophisticated information and communication devices, individuals can theoretically compare their pay conditions with anyone around the globe with the same demographic features and holding comparable positions. Apparently in most cases the limits of physical proximity seem to hamper selection of referents outside the national borders. Moreover, individual differences do not only have an impact on the selection of referents but also on pay preferences themselves, including elements of monetary and non-monetary rewards. A study by Churchill Jr., Ford and Walker Jr. (1979) suggested that in the USA, older workers have expressed higher preference for extrinsic rewards than their younger counterparts, while Frey (1997) presents empirical studies from Europe and the US supporting his contention that explicit rewards “crowd out” intrinsic rewards across a wide range of employee groups. Milkovich and Newman (2008) show preferences of pension plans among older workers or health insurance among employees with dependants.

The second level of analysis presented in Figure 3 concerns the impact of organisational features on compensation decisions. Here, an important influence factor is the corporate strategy (Boudreau and Ramstad, 2007). In the case of remuneration this was confirmed by an early empirical study by Balkin and Gomez-Mejia (1987). However, especially in large international and diversified corporations other contingencies such as the functional area matter as well. For instance, in their analysis of factors influencing compensation strategies in foreign subsidiaries in Finland, Björkman and Furu (2000) have noted a higher incidence of pay-for-performance (PfP) schemes in sales companies than in production and R&D units. Similar results were found by Hannon, Milkovich, Gerhart and
Friedrich (1990). They found that organizations adopting research and development intensive strategies differ in the pattern of their pay practices from other firms. The impact of ownership structures not only on CEO compensation but also on the pay of all employees (Werner, Tosi and Gomez-Mejia, 2005) is another example of the matter of contingencies. In international comparisons they become crucial due to significant variations in ownership and control schemes around the globe (Whitley, 1999).

The third level of analysis deals with the external contextual factors, which according to Hofer (1975) include economic conditions, demographic trends, socio-cultural trends, political, legal and other environmental factors. The explicit consideration of environmental factors in the study of comparative human resource management reflects a contextual rather than a universalistic paradigm (Brewster, 2007). This points to two major explanations in the variation of HRM practices including compensation: The institutional approach and the cultural perspective (Sánchez Marín, 2008a, 2008b; Sparrow, 2008).

The institutionalism perspective (DiMaggio and Powell, 1983; Whitley, 1992) highlights the importance of exogenous factors and recognizes that contextual institutional pressures may be powerful influences on pay strategy (De Cieri and Dowling 1999; Wächter, Peters, Tempel and Müller-Camen, 2003). Whitley, promoting an institutional reasoning, noted that differences in business practices and organizational structures along the globe “are important features of distinctive business systems which are linked to the institutional environments in which they develop and emphasise the contextual nature of ‘firms’ as economic agents” (1992: 7). These environmental factors become of primary importance especially for MNE that operate in multiple institutional contexts and are confronted with the need to promote internal consistency and at the same time face the local isomorphic pressures (Festing et al., 2007; Rosenzweig and Nohria, 1994). Empirical studies have delivered evidence about the impact of institutional factors on compensation designs (see, for example, Wächter et al., 2003). For example, trade unions, which are part of the national institutional
environment may play an important role in the collective determination of wages and salaries (Parboteeah and Cullen, 2003; Traxler et al., 2008) and may oppose the diffusion of compensation practices (Grund, 2005; Kurdelbusch, 2002). However, according to Brewster, Sparrow and Vernon (2007), the empirically tested correlation between union density and the incidence of PfP practices is far from being obvious. The key role of industrial action organisations and legal regulations seems to concern working hours. For example, the latest Economic Policy Reforms Report by OECD (2008a) indicates that the high union density accounts for lower hours actually worked by men and higher hours actually worked by women.

However, no other elements of rewards seem to be as much affected by national institutions as benefits. Here, mainly tax reasons account for the differences. As Brewster et al. (2007: 122) point out “in China, but also in Japan and Korea, employees value benefits increases and bonuses above basic pay increases, partly because tax is levied on basic pay.” The same is true in the USA while in Europe benefits are less common.

In the tradition of the contextual paradigm researchers have also extensively explored the impact of cultural variables on the national compensation designs (Gomez-Mejia and Welbourne, 1991; Newman and Nollen, 1996; Tosi and Greckhamer, 2004; Townsend, Scott and Markham, 1990) either by applying Hofstede’s dimensions (Hofstede, 1980) directly or using such similar cultural factors as “individualism/collectivism” as reference points (Lowe et al., 2002). The significance of national culture is based on Hofstede’s statement, that most inhabitants of a country share the same mental program (Hofstede and Bond, 1988). Following the national culture approach means that “national culture can play a significant part in the evolution of pay systems and the effectiveness of compensation strategies” (Gomez-Mejia and Welbourne, 1991: 39). Respective hypotheses are, for example, outlined by Gerhart (2008). Since Hofstede’s research (1980) many other academics have recognized the importance of culture and its impacts on human resources or compensation issues.
(Rogovsky, Schuler and Reynolds 2000). Sparrow (2004) has identified cultural influences on reward behaviour. For example, he states that “different expectations of the manager-subordinate relationship and their impact on performance management and motivational processes influence the perceived validity and attractiveness of performance-related pay systems” (Sparrow 2004: 105).

Some researchers have pointed out deficiencies of cultural typologies and their application to the comparative studies of remuneration designs (Milkovich and Bloom, 1998; Milkovich and Newman, 2008). Vernon states: “Assertions about the nature of a particular nation’s culture are sometimes ill-based and simplistic, evidence of a particular pay system is sketchy, and the claim that there is some link between the two is left unsubstantiated by any contrast with the situation in other nations” (2006: 225). To conclude the discussion of the national contexts on compensation decisions, it should be mentioned that even though the arguments based on the institutional point of view seem to be much more robust, the importance of research based on the cultural perspective should not be underestimated. Thus, some researchers call for a richer theoretical framework which allows for the explicit inclusion and further development of cultural and institutional arguments (see, for example Sánchez Marín, 2008a, 2008b).

It should be borne in mind, that due to the large number of contingency factors effecting the compensation strategy (Balkin and Gomez-Mejia, 1987) and the wide choice of benefit programmes that could potentially be offered to the employees, even a nation-wide comparison of total compensation is extremely difficult. An international comparison of total compensation is even more complex in the view of different regulatory environments, in the first place with respect to taxation, social security systems and work time regulations. However, a number of features characteristic for each country or region could be identified with respect to the elements and structure of pay, which will be analysed below.
Empirical Evidence for Nation-based Differences in Total Compensation: Analysing Elements of Total Rewards

There are considerable pay level and pay mix variations across nations (Dowling, Engle, Festing and Müller, 2005). First of all, compensation levels differ due to varying economic conditions in low and high pay countries. This is confirmed by such macro-economic indicators as gross domestic product (GDP) per capita levels calculated by purchasing power parity (PPP) (UNDP, 2007). These variations have been extensively studied by a number of national and international organisations that carry out regular surveys on international pay (e.g., the Organisation for Economic Cooperation and Development or European Foundation for the Improvement of Living and Working Conditions). The information provided by these agencies along with the data from the national or supranational organisations, like the Bureau of Labor Statistics of the US Department of Labor or International Labour Organisation, are rich but sometimes limited in their comparability due to aggregation problems. In the next paragraphs we will summarise core results on different elements of total compensation from these sources.

Evidence on Working Hours and Paid Leave

Working hours and paid leave deliver important additional information when analysing the pay level in a comparative way. Those two elements represent examples how the institutional context influences total compensation packages. There are different sources of information on working hours and paid leave. However, while the comparison of statutory minimum vacation can give a good picture of the differences in regulatory environments around the globe, there are substantial differences in some countries between the mandatory minimum and customary length of the paid time off. For instance, the statutory minimum vacation in Germany (legislatively mandated at 24 days) is far less than a very common practice of 30 days paid vacation. In Germany, this is the result of the influence of trade unions that stipulate in collective agreements the duration of the paid time off, which
normally exceeds the statutory minimum. Even though nearly 62 % of German enterprises were not bound by any collective agreement in 2006, a significant number of these companies (26%) used collective agreements as a guide to arrange employment conditions (Institut der deutschen Wirtschaft, 2008).

A second way to compare working time internationally is to measure the hours worked per year in different countries. However, the evidence delivered by this approach, used for example by OECD (2008c), is also limited because the statistics do not only include full-time positions but also part-time labour. Thirdly, the differences in working arrangement can be presented by comparing collectively agreed working hours and paid days off. Figure 4 starts from the last category and presents the data for workers in manufacturing (BDA, 2005).

To outline the importance of this figure it is pointed out that, for example, a customary vacation of 30 days and 9 paid holidays in Germany may account for about 17% of total cash compensation (see Figure 2). In contrast, Martocchio, quotes 2005 data from the U.S. Department of Labor, Bureau of Labor Statistics, noting “paid leave benefits (vacations, holidays, sick leave, and other leave) average $1.72 [per hour] (6.6 percent)” (2007: 147). Thus, an orientation at the base pay market rate alone does not make compensation at different locations comparable.

While research on the perceived value of paid days off from the part of employees both in national and international contexts is scarce, the importance of comparative data on vacations cannot be underestimated. Agreements of vacation time for international transferees have become an indispensable part of transfer planning (Poe, 2001). Employees on international assignments often have a choice between a longer vacation and its monetary equivalent. According to Oechsler, Trautwein and Schwab (2008), BASF, one of the world largest chemical companies, offers its transferees a choice between taking a vacation
according to the home country regulations or an additional allowance to compensate for the shorter annual leave in the host country.

**Total Cash Compensation**

The data presented in this and some of the following sections below have been provided by Hewitt Associates. These data provide details with respect to specific positions and allows for greater comparability than the publicly available aggregated data. We present the results of the total compensation survey for the positions of the General Manager, Head of Human Resources and Junior Human Resources Specialist for 2007. The data presented relates to 15 countries and is based on the survey of 784 companies for the position of General Manager, 820 companies for the position of Head of HR and 284 companies for the position of Junior HR Specialist. The data is based on median values for all companies ranked by sales volumes and positions. Figure 5 shows the total cash compensation levels for both positions in 15 countries, which includes base pay and short-term variable compensation.

**INSERT FIGURE 5 ABOUT HERE**

The comparison of total cash compensation levels for two executive and one generalist position shows the following features:

- Levels of executive total cash compensation in the USA significantly exceed the levels in other countries, which has been confirmed by the recent studies on executive compensation in the global perspective (e.g. Berrone and Otten, 2008)

- While the USA, Western European countries and Mexico lead with respect to pay levels for all positions, in several countries (Brazil in our sample) senior executives, unlike lower management and generalist positions, enjoy far more lucrative total cash compensation packages than their Eastern European and Asian counterparts.

**Share of Target Variable Pay**
An analysis of the share of variable pay allows us to observe further differences between the countries surveyed with respect to the pay structure.

Figure 6 shows comparable shares of variable compensation for executives in all countries presented with the exception of the USA, where companies traditionally increasingly promote PfP schemes. While this result was expected by the CRANET researchers as well, researchers could not confirm that PfP-schemes were indeed more prevalent in the USA than in other countries (Brewster et al., 2007: 133). Possibly the further differentiation with respect to positions can help to shed light on this result. While the Hewitt data clearly indicates that for lower management positions the spread of PfP-schemes does not vary very much, this changes on higher hierarchical levels. One immediately notices the relatively high level of variable pay in India. This fact is explained by the existence of cash allowances paid on top of the base salary, including lunch, house, travel, medical and other allowances.

In their study on the cultural influences of CEO compensation Tosi and Greckhamer (2004) find evidence that the ratio of variable pay to total pay is influenced by Hofstede’s dimension of individualism. At least for the US, the data presented here may confirm this. On the other hand, Balkin showed that in addition to “cultural norms that emphasize individualism” the high US CEO pay with respect to CEO remuneration levels in companies of comparable size in other industrial economies could be explained by such institutional factors as: “(1) the system of corporate governance; (2) regulations that require CEO pay disclosure; (3) regulations that facilitate the early adoption of stock options; (4) decentralized rules of incorporation; (5) mega-stock option grants diffused as a CEO pay practice” (2008: 202-203).

Here we may be seeing the complex interaction between a pattern of cultural values and assumptions interacting with historically derived, yet dynamic institutional and contextual artefacts codified into laws and operating on a national level. The difficulty is that all national
pay systems probably result from this complex web of cultural-historical-institutional and regulatory elements (Berrone, Makri and Gomez-Mejia, 2008). Recent institutional concerns over the dysfunctional consequences of executive pay programs may yet result in even more explicit and transparent systems in North America (Makri and Gomez-Mejia, 2007). Under this complex model it may be “that reward preferences might not be conditioned solely by cultural influences (cultural determinism) but also by other contextual factors (e.g. economic conditions). How culture interacts with other contextual variables to influence reward preferences warrants future research.” (Chaing, 2005: 1559)

Increased applications of more formalized performance management systems as a “best practice” across cultures may provide a more standardized, explicit platform for justifying (or “selling” if you will) PfP-practices for a range of employee groups (DeNisi, Varma and Budhwar, 2008: 254-258). At the same time, an adequate conceptualization of a performance management system that “travels well” across cultures continues to elude practitioner and researcher alike (Brody, Lin and Salter, 2006; Engle, Dowling and Festing, 2008). In the absence of such a compelling, flexible system local and regional traditions are likely to remain robust. The exact nature of the targets and systems operationalized as triggers to performance based payouts vary significantly amongst firms that emphasize variable pay (Hope and Fraser, 2003).

Other Elements of Total Remuneration

An international comparison of other elements of total remuneration is far more difficult. Varying local social security and taxation laws as well as the specifics of local financial markets make it impossible to make a comparable international evaluation of both long-term incentives, benefits and perquisites. Instead, a comparison of the prevalence of certain remuneration elements could give an idea of differences with respect to the total pay
structures over the globe. For instance, Figures 7 and 8 show the prevalence of stock option schemes and company-owned cars in the countries surveyed.

Pendleton, Poutsma, Brewster and van Ommeren (2001) researching financial participation in the European Union have found, that “the incidence of . . . profit sharing and share ownership differed considerably among Member States, and that this correlated broadly with the extent of differences in legislative and fiscal support for them” (p. 21). Research by Festing, Groening, Kabst and Weber (1999) has confirmed these findings. They argue that the complexity of German law and the formalized German workplace industrial relations relates to the empirical finding that financial participation schemes are not very common in Germany. Another important external influencing factor identified by these authors is the government’s attitude to financial participation. While in Britain the government supports the existence of profit sharing, the German government seems to be more conservative in this regard. Thus, the government’s legislation can also be a determinant of major importance here (Festing et al., 1999). Country level factors, i.e. external factors in the sense of the suggested framework, strongly influence the incidence of financial participation in Europe and their impact even exceeds the importance of many internal influencing factors in global pay systems (Pendleton, Poutsma, van Ommeren and Brewster 2001).

Another good example of the influence of environmental factors on compensation decisions may be found in the prevalence of stock options plans. On the one hand, there are significant differences in national regulations pertaining to taxation of employee stock options even within OECD member states (OECD, 2005), which could account for the incidence of employee stock option plans (ESOP) in general. Bloom and Milkovich (1999) confirm this for the specific case of stock options in Germany and in the United States.

The statistics on the prevalence of stock options plans presented in Figure 7 are consistent with data related to management positions provided by the CRANET survey
This study reports an extensive use of stock options plans over the globe. However, country-specific variations between the incidence of long-term incentives (e.g. little prevalence of stock options for CEOs in Singapore or for all positions in the Czech Republic) require further study of cultural and institutional influences (Bruce, Buck and Main, 2005).

On the other hand, there are variations with respect to the exercise patterns across cultures (Balsam and Gifford, 2006), which could be attributed to the variations in such cultural values as uncertainty avoidance. However, a study conducted by Balsam and Gifford (2006) among Fortune 100 multinational corporations showed that the wish to exercise stocks early correlated inversely with national income. The same profit from the stock options will be perceived differently in the USA and in Mexico due to significant differences in basic pay levels. A payout of US$ 1,000 can constitute only a 20% additional monthly income for an employee in a high-wage country, while the same amount may constitute far more than a 100% wealth increase for an employee in a low-wage economy. According to this study, other variables - particularly the age of the employees (individual level of analysis) and tax rates (environmental factor) - do more to explain differences in stock exercise behaviour.

Conclusions: Evidences of Convergence and Divergence in Pay

The conclusion addresses possible convergences and divergences in pay systems, implications for the compensation management in MNEs and draws implications for future research. In his recent work, Fay (2008) reviewed the theoretical arguments for and against convergence of compensation practices. He has pointed out the limits of such convergence at the international level in the view of considerable variations of the compensation levels and practices even within single nations, due to the contingency factors and regional differences.

Even the advocates of the national business systems approach admit the influence of internationalization on local institutions, which as such could be seen as a certain
convergence. Whitley notes that the “national specificity of business systems is also affected by the growth of international firms and markets which has modified the significance of purely national institutions” (1992: 38).

There is some evidence of convergence of pay structures along the globe (White, 2005). Poutsma, Ligthart and Schouteten (2005) confirmed the key role of MNEs in promoting share schemes for all groups of employees in Europe. Milkovich and Bloom noted: "Even long-established, seemingly carved-in-granite cultural norms, such as lifetime employment in Japan and industry-wide bargaining in Germany, are weakening in response to the pressures of a global economy" (1998: 15).

It would be logical to say that the increased internationalization of the world economy would also result in converging pay levels, at least for some groups of (mostly internationally mobile) employees. Figure 8 shows that the average inflation-adjusted pay increases within the period from 2002 to 2007 in new EU member states and some of BRIC (Brazil, Russia, India and China) by far exceed those in developed industrial economies.

This fact could be explained by the increased transparency of international labour markets and labour force mobility (McMullen, Fitzpatrick and Ruiz, 2008). Gross and Wingerup state that "the rise of networked organizations through telecommunications and the Internet and intranets has increased the employee interaction, allowing an accountant in Argentina, for example, to talk to her counterpart in Mexico and compare pay and working conditions" (1999: 26).

An equally rapid convergence of other elements of total compensation is less likely due to the role of the national legislation and industrial action. It is still questionable, whether the level of integration of the world economy will force the legislators and trade unionists to make relevant concessions. According to OECD (Economic Reform: A Mixed Scorecard,
2008), unlike many other measures to improve efficiency of national economies, local
governments seem to make little effort to alter the labour market regulations.

Morgan, Kelly, Sharpe, and Whitley underscore that unlike “the nationally based firm,
the multinational does not exist in a unified institutional context that reinforces and
reproduces particular practices” (2003: 389). MNEs react to this situation by trying to install a
“transnational social space … [by means of] creation of common policies and procedures and
the application of formal means of monitoring and accounting for performance” (2003: 389).

Lowe et al. note that “the traditional factors of production (capital, technology, raw
materials, and information) are increasingly fungible, with employee quality the only
sustainable source of competitive advantage to developed country multinationals” (2002: 46).
A way to maintain this competitive advantage is to promote internal consistency by means of
standardized HR practices, including rewards. The topic of international standardisation of
compensation practices has been increasingly discussed both in the academic (Festing et al.,
2007; Festing and Perkins, 2008) and practitioner literature (Gross and Wingerup, 1999;
Milovich and Bloom, 1998; White, 2005).

Gross and Wingerup (1999) identified three groups of factors driving the globalization
of pay practices:

1. global competition for talent due to the increased international mobility
   (“organizational flexibility”),
2. growing transparency and manageability of international pay systems owing to the development of the information and computer
technology (“effective knowledge management”), and
3. the need to promote "a strong global culture" as a key to the organizational success.

For additional commentary on this trend, see Dowling et al., 2008: 159-161 and 219-220.
Due to significant variations of economic conditions among the countries, such
standardization of pay practices could be implemented by introducing global compensation
elements, including non-monetary rewards and salary level determination systems (Abosch, Schermerhorn and Wisper, 2008).

However, such standardization strategies can be significantly hampered by the national social, political and legal institutions, especially employment regulations in the form of statutory minimums with respect to pay or benefits. Yet the limiting impact of such mandatory minimums varies. On the one hand, there is evidence that the wages and salaries offered to the employees of MNEs as a rule exceed the average country levels (OECD, 2008b) and thus minimum wages. On the other hand, such regulations or collectively agreed customs as compulsory vacations considerably hinder the implementation of such a universal strategy.

While local institutions are also reported to hamper the transfer of PIP-schemes, in some countries profit-sharing programs could be mandatory. For instance, all companies in France with over 50 employees must implement a statutory profit-sharing (participation) plan. While Fakhfakh and Perotin (2000) report on the positive impact of voluntary profit-sharing schemes on factor productivity in French companies, Hewitt Associates note that “[statutory] participation is not regarded by employees as part of their compensation and is regarded as an ‘acquired right’ which has little or no motivational effect, even though it may be worth as much as two months’ salary per year in a highly profitable organization” (Hewitt Associates, 1991: 289).

**Trends and Directions for Future Research**

Recently, academic literature on international compensation has increasingly concentrated on the incidence of pay elements, notably PIP-schemes, including short-term and long-term incentives (Antoni et al., 2005; Kurdelbusch, 2002). However, there is dearth of comparative research on such non-monetary rewards as paid time off, pension plans or medical insurance. A comprehensive measurement of value of benefits for employees in
different countries will thus support international total compensation comparisons. As presented earlier in this paper, the operationalization and scaling of intrinsic elements such as quality of work life, the value of institutional affiliation and career development opportunities warrants further research (Klarsfeld and Maby, 2004).

Additional areas of transition include the future direction of hierarchical pay patterns in executive compensation (as practiced in the US and the UK) in the light of recent stock market “corrections” and an apparent disconnect between executive pay and long-term firm performance, as opposed to the future of more egalitarian pay practices as seen in Europe and parts of Asia. Second, we note the continuation of an apparent trend of openness and transparency in labour markets within the EU. There is some question as to how widely this labour mobility goes. How far beyond entrepreneurs, executives and managerial ranks is this transparency to be found?

This encompassing effort to capture cross cultural pay research and practice may be built on rather flimsy empirical ground. Empirical research and publication has a North American bias in terms of the number of articles published and the subject matter and firms surveyed. Much of the data we have is from US based researchers, consulting firms or samples. Recent activities by CRANET and more globally focused consulting firms have partially alleviated this problem. There still remains the nagging concern of a weighted sample in cross cultural reward research.

In an initial step toward building a vocabulary with which to more effectively pursue cross cultural reward studies, we present a series of models. Milkovich and Bloom (1998) outline a three part model of global compensation strategy, from the firm perspective (see Figure 9).

INSERT FIGURE 9 ABOUT HERE
In the first element, core pay practices are standardized across all the regions and cultures in which the firm operates; next, a crafted set of pay practices are customized to local and regional contexts and markets; finally individual employees are given a choice of pay practices, along the lines of flexible benefits. It is this combination of these three elements that provides the global firm with a combination of systematic logic and responsiveness to local and individual interests.

We present a proposed approach to comparative or cross cultural management based on a similar composite model (see Figure 10). In the outer oval we present externally influenced, institutionally mandated pay elements, required by legislation as well as industrial regulation. In the centre oval we present culturally influenced norms and values, practices influenced by historical context, local and regional supply and demand and the need for competitive responsiveness. Finally, the centre oval represents strategically linked practices, dependent on more internally based decisions of business intent and executive practice (for more on the theoretical origins supporting internal as opposed to external foci for pay systems, see Dowling, Engle, Festing and Muller, 2005).

INSERT FIGURE 10 ABOUT HERE

Given this framework, researchers can distinguish between “demanding contexts” characterized by prescribed legislation and/or strongly held values and preferences effecting major reward system decisions, and more “permissive contexts” characterized by limited legislative or institutional frameworks and/or more indifferent social norms or values related to employment exchange and rewards. More demanding social or institutional contexts are associated with pay systems that emphasize local customization and an external focus to the rewards system. More permissive contexts are thought to be associated with global (or firm level) standardization and an internal focus to the reward system. How these two roughly outlined contexts relate to specific pay practices (e.g. Base Cash, Short-Term
Variable, Long-Term Variable, Benefits, Perquisites and Other Noncash Rewards, as per Figure 10 above) is a starting point for a more systematic approach to a very complex topic area.

Distinguishing between when a given pay practice is an independent variable, varying over a wide range; an independent variable, ranging over a narrower or prescribed range, or is a constant, prescribed and given, is a critical first step in this challenging and complex subject area. This admittedly primitive metric may be useful in describing and mapping the “Renaissance” composite of selected institutional barriers (wherein little discretion in pay decision making is allowed) in combination with reward elements providing a transparent and open, market-based latitude for decision making. It is this combination that describes contemporary European reward practices.

References


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Werner, S., Tosi, H. L. and Gomez-Mejia, L., 2005, "Organizational governance and employee pay: How ownership structure affects the firm's compensation strategy". 


White, R., 2005, "A strategic approach to building a consistent global rewards program". 


Figure 1: Total Rewards

<table>
<thead>
<tr>
<th>Intrinsic</th>
<th>Extrinsic: All things onto which we can assign a dollar value</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Quality of Work &amp; Life</td>
<td>• Cars</td>
</tr>
<tr>
<td>• Affiliation</td>
<td>• Clubs</td>
</tr>
<tr>
<td>• Development</td>
<td>• Counselling</td>
</tr>
<tr>
<td></td>
<td>• Contracts</td>
</tr>
<tr>
<td>• Other Noncash Rewards</td>
<td>• Retirement</td>
</tr>
<tr>
<td></td>
<td>• Health &amp; Welfare</td>
</tr>
<tr>
<td></td>
<td>• Time Off w/Pay</td>
</tr>
<tr>
<td></td>
<td>• Statutory Programs</td>
</tr>
<tr>
<td>• Other Noncash Rewards</td>
<td>• Stock/Equity</td>
</tr>
<tr>
<td></td>
<td>• Cash</td>
</tr>
<tr>
<td></td>
<td>• Incentive (Long-Term)</td>
</tr>
<tr>
<td>• Total Reward Elements</td>
<td>• Incentive (Short-Term)</td>
</tr>
<tr>
<td>• Total Reward Elements</td>
<td>• Bonus/Spot Awards</td>
</tr>
<tr>
<td>• Total Reward Elements</td>
<td>• Contract</td>
</tr>
<tr>
<td>• Total Reward Elements</td>
<td>• Base Salary</td>
</tr>
<tr>
<td>• Total Reward Elements</td>
<td>• Hourly Wage</td>
</tr>
<tr>
<td>• Total Reward Elements</td>
<td></td>
</tr>
<tr>
<td>• Total Reward Elements</td>
<td></td>
</tr>
</tbody>
</table>

Source: Manas and Graham (2003: 2).

Figure 2: Labour Costs in Germany
Manufacturing industry, in percent to gross wages and salaries¹)

<table>
<thead>
<tr>
<th>Remuneration elements</th>
<th>2004</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation for hours worked (direct pay)²³</td>
<td>75.8</td>
<td>76.1</td>
</tr>
<tr>
<td>+ Pay for time not worked⁴</td>
<td>16.6</td>
<td>16.6</td>
</tr>
<tr>
<td>+Bonuses</td>
<td>7.6</td>
<td>7.3</td>
</tr>
<tr>
<td>=Total cash compensation</td>
<td>100.0</td>
<td>100</td>
</tr>
<tr>
<td>+Social security contributions</td>
<td>26.1</td>
<td>25.7</td>
</tr>
<tr>
<td>+Other additional personnel expenses⁵</td>
<td>4.5</td>
<td>4.3</td>
</tr>
<tr>
<td>=Total labour costs</td>
<td>130.6</td>
<td>130.0</td>
</tr>
</tbody>
</table>

¹) Compensation for hours worked;
²) Including additional payments for performance;
³) Calendar adjusted;
⁴) Including vacation, paid sick leave, paid days off;
⁵) Less refunds;

Source: Adapted from Schröder (2008: 4)

Figure 3: Factors Influencing Compensation Decisions
<table>
<thead>
<tr>
<th>Levels of Analysis</th>
<th>Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>• Age</td>
</tr>
<tr>
<td></td>
<td>• Job tenure</td>
</tr>
<tr>
<td></td>
<td>• Marital status</td>
</tr>
<tr>
<td></td>
<td>• Family size</td>
</tr>
<tr>
<td></td>
<td>• Education</td>
</tr>
<tr>
<td>Organizational</td>
<td>• Stage in the product life cycle</td>
</tr>
<tr>
<td></td>
<td>• Size of the firm</td>
</tr>
<tr>
<td></td>
<td>• Industry traits</td>
</tr>
<tr>
<td></td>
<td>• Ownership structure</td>
</tr>
<tr>
<td></td>
<td>• Organizational culture</td>
</tr>
<tr>
<td></td>
<td>• Profitability</td>
</tr>
<tr>
<td></td>
<td>(Balkin and Gomez-Mejia, 1987)</td>
</tr>
<tr>
<td>Environmental</td>
<td>• Employer federations</td>
</tr>
<tr>
<td></td>
<td>• Trade unions</td>
</tr>
<tr>
<td></td>
<td>• Social contract</td>
</tr>
<tr>
<td></td>
<td>• Culture/politics</td>
</tr>
<tr>
<td></td>
<td>• Competitive dynamics/markets</td>
</tr>
<tr>
<td></td>
<td>• Taxes</td>
</tr>
<tr>
<td></td>
<td>(Milkovich and Newman, 2008)</td>
</tr>
</tbody>
</table>

Figure 4: Collectively Agreed Annual Working Time of Workers in Manufacturing, 2004
C. Annual working hours

Source: (BDA, 2005; Institut der deutschen Wirtschaft, 2008).

Figure 5: International Comparison of Total Cash Compensation Levels 2007.
Source: Hewitt Global TCM Cash and Prevalence Reports, 2007

Figure 6: Share of Target Variable Pay, 2007.

Source: Hewitt Global TCM Cash and Prevalence Reports, 2007

Figure 7: Prevalence of Stock Option Schemes*, 2007
* For USA the data on nonqualified stock options only is available. In UK, there is statistics on both approved and nonapproved stock options (the prevalence of both types is nearly the same for all the companies surveyed).

In order to maintain comparability of the data with the prevalence of nonqualified stock options in the USA, the UK statistics is limited to nonapproved stock options.

Source: Hewitt Global TCM Cash and Prevalence Reports, 2007

Figure 8: Average Annual Pay Increases in Selected Countries, 2002-2007

<table>
<thead>
<tr>
<th>Country</th>
<th>Actual Average Pay Increase*</th>
<th>Average Pay Increases over Inflation**</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Europe</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>4,07%</td>
<td>0,93%</td>
</tr>
<tr>
<td>Belgium</td>
<td>3,50%</td>
<td>1,55%</td>
</tr>
<tr>
<td>Germany</td>
<td>3,18%</td>
<td>1,59%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2,45%</td>
<td>1,61%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3,48%</td>
<td>1,63%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3,83%</td>
<td>2,06%</td>
</tr>
<tr>
<td>Poland</td>
<td>5,12%</td>
<td>3,14%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>5,28%</td>
<td>3,26%</td>
</tr>
</tbody>
</table>
### North America

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>3.55%</td>
<td>0.88%</td>
</tr>
</tbody>
</table>

### BRIC States

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>8.75%</td>
<td>1.34%</td>
</tr>
<tr>
<td>China</td>
<td>7.93%</td>
<td>5.88%</td>
</tr>
<tr>
<td>India</td>
<td>13.03%</td>
<td>8.32%</td>
</tr>
</tbody>
</table>

* Based on the annual reports for 2002-2007 by Hewitt Associated
** Based on OECD statistics on consumer price indexes (CPI) growth rates for 2002-2007 (stats.oecd.org)

Figure 9: Elements of Global Pay

Source: Adapted from Milkovich and Bloom (1998: 22)
Figure 10: Institutional, Cultural and Strategic Discretion in Pay