European Pay Practices

- A Tri-Part Historical Preface
- A Descriptive Overview
- Trends and Directions for Future Research
- A Composite Approach to Pay Contexts
A Historical Preface

A Closed Arcadia

Universalism and Dogma

A Renaissance
A Closed Arcadia

- Postwar-1970’s

- The Forest: Closed, complex, historically grown, variance across nations, industries and firms

- Pay decisions delimited by legislation, tradition, industrial context

- Emphasis on “Local Customization”
Challenges to Arcadia

• U.S. based multinational enterprises seek uniformity

• Tayloristic logic and “Best Practices” from global consulting firms

• Global competitive pressures, reduced tariffs

• Perceived failure of state planning to provide standard of living and capacity for global competitiveness
The Dogma

• 1970’s to 2000’s
• Open fields and rows of crops: Universal pay practices, emphasizing individually focused, strategically-linked total rewards
• Thatcherite and Reaganesque policy
• Accelerated globalization and interdependence
• The public economic failure of state socialism, the superiority of competitive markets
• Heavy on Global Standardization
Challenges to the Dogma

• Pan European consolidation
• Euro-management?
• The social tally resulting from unfettered markets
• Protecting valued local institutions and longstanding social contracts
• Contextual Institutionalism vs. Universalism
Renaissance

- Mid 1990’s until today
- Hybrid Systems
- Balancing institutional realities with the dynamics of free markets
- Not a return to arcadia, but a renaissance; a new and unique composite system
Synthesis of Standardization & Customization

- **Globally standardized** market focused, more transparent. Accountability, connecting pay practice to firm and societal outcomes, moving beyond wages to total rewards.
- **Locally customized** maintaining national or regional institutional heritage, collective wage negotiations, coordinated pay practices across an industry, nation or across the EU.
Imagery of a Patchwork of Fields

• Rows of institutionalized hedges or windbreaks to reduce the harsh effects of unconstrained market winds

• These fields are more open to:
  – efficiencies of standardization
  – contours and ecology of local or regional historical or institutional terrain
  – develop a more sustainable reward system
Sustainable Rewards:

Balancing

Long term social, political, ecological and economic development

with

Short term market efficiencies and growth results
An Analysis – Yet no Charts

- Empirical results from a variety of primary and secondary academic and practitioner sources

- Patterns and trends presented as follows:
  - Total rewards
  - Transparency and access to pay practices
  - Contextualism at the individual, organizational and environmental (institutional) levels
  - Describing the elements of total rewards
Total Rewards

• Use of a wider range of pay practices, seeing pay as some combination of:
  
  – Base
  – Short term variable
  – Long term variable
  – Perquisites
  – Other Rewards
Total rewards

This approach is

• Flexible enough to encompass a variety of institutional, regulatory and social frameworks and

• Standardized enough to integrate into domestic corporate, multinational and supranational government (e.g. EU) requirements
Individual Contextualism

- Preferences and expectations of individuals
- Social comparison processes, referent others
- Transparency and media allow extensive assessment of pay equity across historical barriers
- Labor mobility in Europe
- Standardization of monetary unit and EU labor legislation
Organizational Contextualism

- Corporate Strategy
- Need for and capacity to integrate value chain activities across nations and regions of the world
- Functional area (marketing vs. production for incentive schemes)
- Ownership form of firm
Institutional Contextualism

- Local/regional economic conditions (labour demand), demographic trends (labour supply)
- Socio-cultural trends, political trends (Obama-esque executive pay philosophy for GM)
- Sustainability and wealth maximization as opposed to a “lighter footprint”
- Benefits are the most institutionally sensitive element of pay
Institutional Pay

Individualism/Collectivism
Competitive/Cooperative
Masculinity/Femininity, . . .

• Such typologies are criticized as overly simplistic and rudimentary at this time

• Sheer complexity of the potential number of institutionally-linked pay elements
National Differences and Pay Practices

- Working hours and paid leave
- Total cash compensation
- Variable pay
- Long term incentives
- Benefits
- Perquisites
Working Hours and Paid Leave

- Maximum hours per week (40-35)
- Mandatory minimum or customary days of paid time off (30 to 11)
- Annual working hours per year (1900+ to 1600)
Total Cash Compensation

- Some things never change: U.S. executive compensation as "oversexed, overpaid, and over here"

- U.S., Western Europe, and Mexico globally lead in pay costs for all levels of employees

- Several interesting countries (Brazil) lead in executive total rewards over CEE and Asian executives
Variable Pay

• Problems in defining variable pay by context-
  allowances as variable pay in India

• Pay for Performance schemes lead in the U.S.,
  nations vary in how far down the hierarchy
  employee groups are bonus eligible

• Performance attribution in individualistic as
  opposed to collectivistic societies?

• More complex institutional controls?
  (regulations, tax treatment, etc.)
Variable Pay

• The interaction of cultural values and historically derived, yet dynamic institutional artifacts (regulatory legislation)

• Long term values vs. immediate economic conditions

• Interest in:
  – more sophisticated
  – culturally and institutionally flexible performance management models processes and systems to support and justify variable pay practices
Long Term Incentives, Benefits, and Perquisites

• Large variances, limited evidence of pattern

• Due to tax practices, varying social security legislation, government position on dual pension funding (public and private) vs. single (public) pension funding

• Profit sharing:
  Yes in UK, not so much in Germany

• Stock option plans vary nationally:
  by frequency and by who is eligible
Executive Rewards Reevaluated

- Perquisites on the auction block (Anyone need a Lear jet?)
- Long-term variable component evaporated
- Base pay under review
- Corporate governance: agency in the cross-hairs
Convergence and Divergence in Pay

• Convergence from:
  – multinational enterprise practices
  – protean value chains
  – transparency and regional or global talent wars in emerging markets

• Divergence due to:
  – compulsory national or regional pay legislation
  – resurgent institutional support to protect the unique nature of a society
Future Research

• Balance pay for performance (incentives) research with research on other pay forms; e.g. non-monetary rewards such as paid time off, pension plans or medical insurance

• Revisit the logic of executive pay

• Mechanisms and processes of global pay transparency and pay equity

• Broaden research base beyond the US
Discretion in Pay Decisions

- Institutionally Congruent
- Strategically Linked
- Culturally Influenced
Renaissance in Rewards

Thank you for your attention

Any questions?