

Indexing on:
INDEX  COPERNICUS
INTERNATIONAL

Vol. 17, No. 4

2012

ISSN 2334-6191 (Online)

ISSN 1821-3448

UDC 005.21

University of Novi Sad
Faculty of Economics Subotica

Strategic management

International Journal of
Strategic Management and
Decision Support Systems
in Strategic Management

Strategic Management

International Journal of Strategic Management and
Decision Support Systems in Strategic Management

www.ef.uns.ac.rs/sm

ISSN 1821-3448
UDC 005.21
2012, Vol. 17, No. 4

Contents

Risk Management of an Investment Project through Monte Carlo Simulation

Ilija Hristoski, Kosta Sotiroski, Igor Zdravkoski

3-15

Influence Diagrams: Predictive Approach in Decision Support Systems

Amin Hosseinian-Far, Elias Pimenidis, Hamid Jahankhani

16-22

The Internal Determinants of Profitability in the Serbian Banking Sector

Milivoje Davidović, Jovana Ivančević, Tamara Antonijević

23-31

Changes in the Human Resource Compensation Systems of European Companies – Based on the CRANET Research Result Analysis

Gizela Štangl Šušnjar, Agneš Slavić

32-40

Application of the Process-Based Organisational Model as a Basis for Organisational Structure Improvement in Crisis

Stefan Komazec, Ivan Todorović, Miloš Jevtić

41-49

From Customer Satisfaction to CSR in Serbian Conditions: a Review of Literature and Business Practices

Dragan Čočkalo, Cariša Bešić, Dejan Đorđević, Srđan Bogetić

50-58

Changes in the Human Resource Compensation Systems of European Companies – Based on the CRANET Research Result Analysis

Gizela Štangl Šušnjar, Agneš Slavić

University of Novi Sad, Faculty of Economics Subotica, Serbia

Abstract

In the period of turbulent change, economic and financial crisis, creative and loyal workforce features as an important factor of success in any organisation. Establishing a compensation system as a key activity of human resource management affects people's workplace behaviour. As well as choosing the appropriate bonus schemes and offered benefits, setting the amounts of basic pay and bonuses gains particular importance in times of crisis. The aim of this article is to present the basic elements of the compensation system in twenty European countries based on Cranet Survey conducted in 2005, and from 2008 till 2010. Cranet is an international network of business schools enquiring into policies and practices of human resource management. Faculty of Economics Subotica has been a member of this organisation since 2008, when the field survey was conducted in Serbia. This article will present the results related to primary responsibility for compensation, data on the operating costs accounted for by labour costs, wage determination methods, and the elements of bonuses and benefits. Data available for 2005 and the period from 2008 till 2010 will be processed with descriptive statistical methods and presented in graphic form. Indicating trends, similarities and differences in the compensation system elements in the twenty observed European countries will serve as important information to human resource managers for designing an appropriate compensation, incentive and benefit method. Managers of multinational companies can use the obtained results for devising specific strategies in the observed twenty countries.

Keywords

Compensation, pay, benefits, human resource benefits, Cranet, Europe.

1. Compensation system development

Developing compensation systems as the main human resource management (HRM) activity refers to monetary payments to workforce for the purpose of meeting an organisation's targets and its employees' needs. Compensations include basic pay with various bonuses, incentives, formed at the individual, group or organisation level, and benefits, i.e. payments and intangible perks to employees.

Stone (2011, p. 437) argues that money plays a more complex role in individual motivation. Money enables satisfying most needs, and is at the same time a symbol of achievement, recognition and status. Payments, as a motivator most frequently used in organisations, are evidence of how much an employee's contribution to achieving the organisation's objectives is valued. Employees often compare their own compensations with others', and thus form their own satisfaction and performance.

Šušnjar (2005, p. 314) points out that "pay is the weekly wage or monthly salary, as remuneration comprising the major part of compensating employees for their work". The compensation system usually comprises the following elements: basic pay, bonus, compensation, premium and overtime pay. Most organisations use traditional pay calculation systems, such as seniority, hourly wage and wage

brackets. Alternative pay calculation systems include productivity based payments, competence model and wage bracket integration.

Incentive payment system is rewarding employees' extraordinary performance. The basis of this compensation element is appropriately conducted assessment of the employees' work performance. Enterprises may use various methods of individual, group and collective incentives. Individual incentives usually include payment per product unit, stimulating time saving, rewarding innovation and individual bonuses. In the case of group stimulation, the entire group's performance is considered rather than that of individual members. Collective incentives imply rewarding all employees for the organisation's achieved performance. The most frequently used methods include profit sharing, share options and goal sharing.

Developing a compensation system is an important activity for any organisation. According to Armstrong (Armstrong, 2007, p. 651), it begins with business strategy analysis. An enterprise's HRM is formulated based on this. Compensation strategy is developed and key rewarding principles are defined in accordance with the existing HRM strategy, compensation policies and practice, and all company shareholders. Implementation of the developed compensation system, reviewed and modified as required, commences after final communication with all employees.

Milkovich & Newman (1999, pp. 10-14) classify the goals of compensation into three groups: efficiency, equality and legality. The efficiency of a compensation system refers to such a system that will improve employee performance, product quality and customer satisfaction, coupled with controlled labour costs. Equality is the key assumption of a compensation system, taking into consideration both the employees' contribution and their needs, offering a compensation system transparent to everyone. Legislation should also be taken into consideration when building a system. As legislation is prone to frequent changes, so is the compensation system continuously modified and harmonised with regulations currently in force. In the authors' opinion, four strategic principles are emphasised: internal consistency, external competitiveness, employees' contribution and compensation system administration. Internal consistency refers to ratios between pays within the organisation, i.e. whether employees with higher qualifications, more experience and performing tasks of higher complexity will get higher wages. External competitiveness refers to forming wages that will be similar to those on the labour market, providing compensation elements similar to those that the employees would receive for similar tasks from the organisation's competitors. The employees' contribution indicates the relative relevance of the employees' performance to their wages. It comprises the application of bonuses, performance-based wages and various incentives. Administration comprises applying compensation elements by trained managers.

Martocchio (2009, p. 42) argues that compensation strategy affects other activities of the HR Department. Compensation strategy principles should also include the activities of recruiting, selecting, performance management, training, career development and industrial relations. The author also stresses that the compensation system should take numerous stakeholders into account: employees, line managers, top managers, trade unions and the Government. Martocchio points out that HRM experts should educate employees on the remuneration system elements, and continuously provide advice for designing optimum individual compensation systems. HRM experts should also assist managers in evaluating tasks and results of individual employees and setting objective basis for remuneration. HRM experts assist the top management in designing the basic compensation system in compliance with the regulation in force. HRM experts are also responsible for the appropriate implementation of legal regulations in formulating the basic wage, bonuses, incentive pays and benefits (Martocchio, 2009, pp. 48-49).

2. International differences in the compensation system

The formation of a compensation system is influenced by numerous external and internal factors. Stone (2011) lists the numerous factors affecting the remuneration system, including economic, political, legal, technological, environmental, cultural, demographic, social and corporate influences, coupled with industrial relations. As for internal factors, the author lists the impacts of strategy, structure, system, people and culture (Stone, 2011, p. 443). Milkovich & Newman (1999, p. 57) present a somewhat different classification of organisation factors. In their opinion, the compensation system is influenced by technology in the form of organisation design, nature of tasks, requirements set before employees, HR policies, acceptance by the staff, and cost impact.

Many authors point out that, in addition to the existence of basic trends in the wage formation system worldwide, there are also notable differences among countries in the ways employees are rewarded for loyalty and time spent at work (Brewster, Sparrow, & Vernon, 2007, p. 123).

Literature on comparative HRM is dominated by the approach according to which national culture significantly affects the formation of the compensation system applied in the given country. National culture includes common attitudes, norms and beliefs of individuals within national frontiers. Compensation experts should be versed in elements of national cultures and their impact on compensation. The most commonly used classification of national cultures is based on Hofstede's research, distinguishing the six main distinguishing dimensions of national cultures.

Power Distance (PDI) indicates the extent to which society accepts the fact that power in institutions and organisations is unevenly distributed. Cultures characterised by high power distance values prefer compensation emphasising employees' status (for instance, seniority-based wages and managerial bonuses), whereas in countries with a lower value of this element employees prefer compensation forms emphasising staff equality, such as profit sharing.

Individualism vs. Collectivism (IDV) is a dimension related to the social framework where people are expected to care of themselves and their families. Individual achievement is highly valued in individualist countries, whereas individuals in collectivist societies expect society to care of them. Individualist cultures, therefore, prefer compensation rewarding individual performance and ability, whereas collectivist countries prefer group or collective incentive.

Uncertainty Avoidance (UAI) indicates the extent to which members of a given culture are willing to tolerate uncertain situations. Using bureaucratic compensation method, emphasising fixed pay and reduced incentives are recommended in countries where individuals do not accept risk. Incentive wages are recommended in countries where people undertake risks.

Masculinity vs. Femininity (MAS) is a dimension pointing to a society's dominant values. Men's values include persistence, affluence, entrepreneurship and innovation, whereas women's values include quality of life, human relations, harmony and stability. Compensation systems in male-centred cultures often allow gender inequality, but also various payments and benefits to women during maternity leave. The dominant approach to wage formation in female-centred cultures is that based solely on job analysis and performance assessment, regardless of the executor's demographic characteristics.

As the formation of wages and other compensation system elements is influenced by numerous external and internal factors, comparing compensation systems is a highly complex task. Indicating trends, similarities and differences in compensation system elements can serve as important information to HR managers for designing appropriate wage, incentive and benefit systems. Managers of multinational companies can use the obtained results for devising specific HR strategies and expatriate incentives.

The aim of this article is to present the basic compensation system elements in twenty European countries based on Cranet surveys conducted in 2005 and from 2008 till 2010 (Cranet, 2005, 2011).

3. Cranet survey overview

Cranet is an England-based international network of business schools involved in comparative research into policies and practices of human resource management, established in 1989. Faculty of Economics Subotica has been a member of this organisation since 2008, when the field survey was conducted in Serbia. Their standard questionnaire comprises five main areas of human resource management: the role of HR Department, staffing practices, employee development, compensations and benefits, and employee relations and communication. The questionnaires, translated into local languages, were filled in by HR managers or officers of companies with more than 50 staff members.

7914 organisations from 32 countries participated in the 2003-05 survey: Europe was represented by the following countries: Austria, Belgium, Bulgaria, Island, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Norway, Slovakia, Spain, Sweden, Switzerland, the Netherlands, Turkey and the United Kingdom. Participants from other continents were: Australia, Canada, Israel, Nepal, New Zealand, the Philippines, Tunisia and the USA.

The last round of surveys encompassed a total of 6258 enterprises from 32 countries. European participants were Austria, Belgium, Bulgaria, Iceland, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Lithuania, the Netherlands, Russia, Serbia, Slovakia, Slovenia, Sweden, Switzerland and the United Kingdom, whereas the rest of the world was represented

by companies from Australia, Israel, Japan, the Philippines, South Africa, Taiwan, Turkish community on Cyprus, and the USA.

70 % of the sample of respondents in the entire Cranet survey conducted between 2008 and 2010 comprised private companies. About half of the sample (around 50%) accounted for organisations with fewer than 500 employees involved in industrial production (36%) for the national market (31%).

The survey in Serbia was conducted in late 2008, covering 50 enterprises from the entire country, with a total of 17064 employees. Most of the respondent companies (70%) were private, and 26% of them are producers.

As field research was conducted from late 2008 till mid-2010, the impact of the economic crises on obtained data varies, which requires a special and very careful analysis data analysis.

4. Data analysis

Out of the Cranet research into compensation systems across countries, this article will present data related to primary responsibility for compensation, data on primary responsibility for compensations, data on the operating costs accounted for by labour costs, wage determination methods, and incentive elements.

To provide a possibility of comparing data from 2003-05 and 2008-10 research period, the article analyses results from the following European countries: Austria, Belgium, Bulgaria, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Cyprus, Russia, Serbia, Slovakia, Slovenia, Sweden and Great Britain.

Primary responsibility for compensation system

Primary responsibility for wages indicates the decision maker on compensations in an enterprise. In some countries, the normal practice is for line managers to make these decisions; in some – line managers after consulting the HR Department; in some – HR managers after consulting line managers; whereas in other countries HRM experts have full freedom in formulating staff wages. Figure 1 shows the 2005 data, whereas Figure 2 presents the 2010 data.

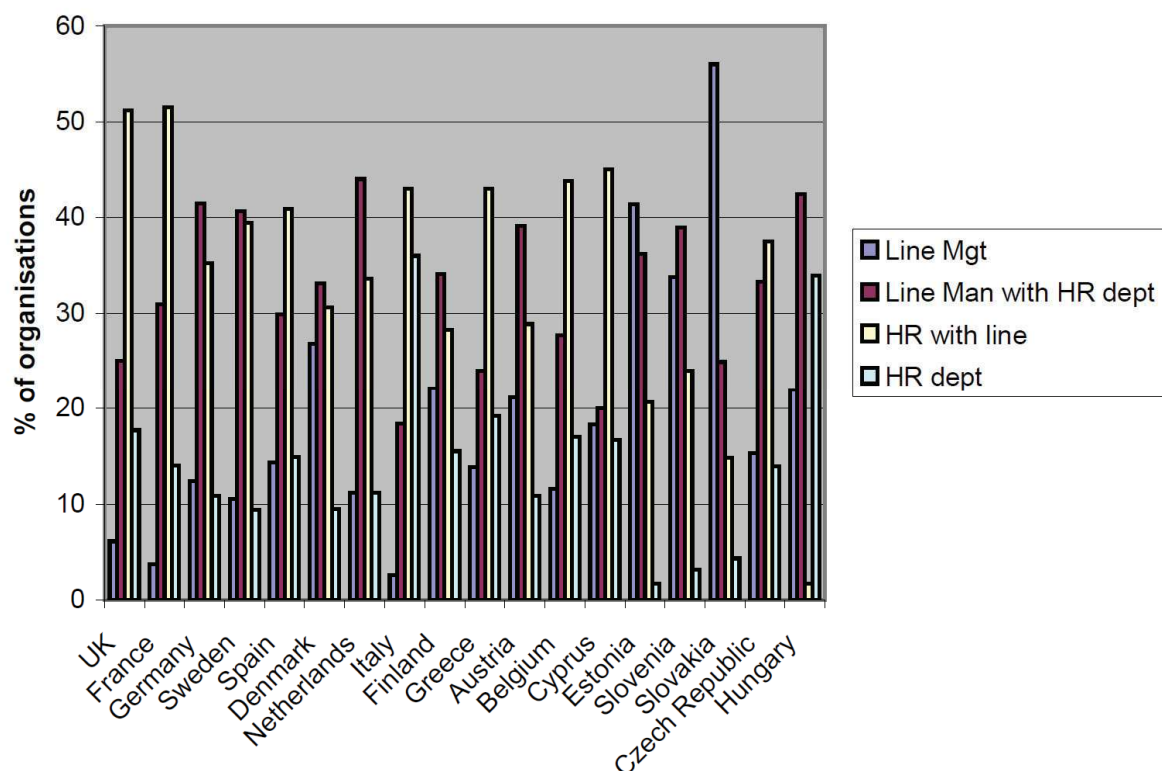


Figure 1 Primary responsibility for compensation systems in 2005.

Source: Cranet, 2005, pp. 22-23

The dominant European HR management practice was cooperation between HR Departments and line management in determining staff wages. The HR Department does not make independent decisions on wages in any of the country observed. The greatest autonomy in these terms was enjoyed by HRM experts, where the decision was theirs alone in 37% cases. Unlike this, the lowest impact on compensation was exerted by Slovakian HR Departments, where this decision was made by line managers in 57% enterprises. The situation is similar in Bulgaria, Estonia and Slovakia. Most dominantly, this important decision on staff remuneration is made by the HR Department after consulting line managers in France, where 52% respondents reported this. The situation is similar in Belgium, Greece, Italy, the Czech Republic, Spain and the UK, whereas line managers predominantly make this decision after consulting the HR Department in the Netherlands, as reported by 46% respondents. Primary responsibility is similar in Austria, Finland, Hungary, Germany, Slovenia and Sweden.

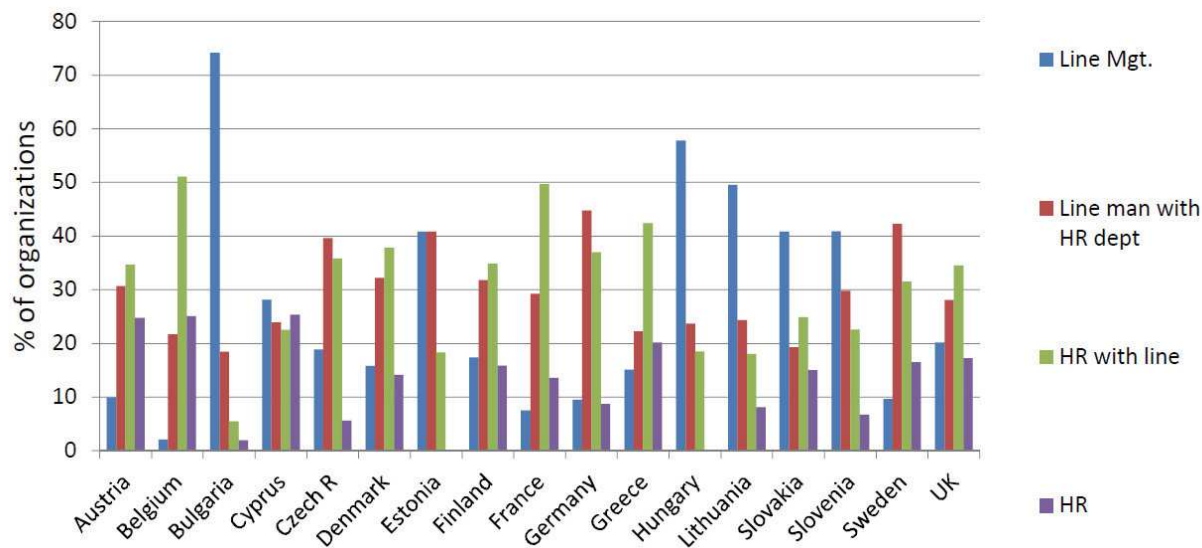


Figure 2 Primary responsibility for compensation systems in 2010.

Source: Cranet, 2011, p. 26

The 2010 data also indicate that decisions on compensation are made in collaboration between the HR Department and line management. Having consulted line management, HR Department decides on wages in Austria, Belgium, Denmark, Finland, France, Greece and the United Kingdom, i.e. countries with developed markets. Line management decides on wages after consulting the HR Department primarily in the Czech Republic, Germany and Sweden. It is interesting that in some countries, such as Bulgaria, Hungary, Slovakia, Slovenia, Russia and Serbia, this decision is made by the line manager. We can infer that, in former socialist countries, line management bears primary responsibility for making decisions on compensation, and the HRM Department still does not have an appropriate role in this process.

Comparing the 2005 and 2010 data, we can conclude that primary responsibility for determining wage systems is borne by HR Departments in cooperation with line managers. A significant difference, however, is noticeable between the practices of countries with developed markets, where this decision is mostly made after consulting line management on the one hand, and former socialist countries, where line managers have primary responsibility in this issue.

Operating costs accounted for by labour costs

Operating costs accounted for by labour costs is a significant indicator evidencing the impact of the HR Department in an enterprise. If labour costs account for higher share of operating costs, this means that HRM measures essentially influence the company's performance. Figure 3 shows 2005 and 2010 data. Data for the USA and Australia is given for comparison.

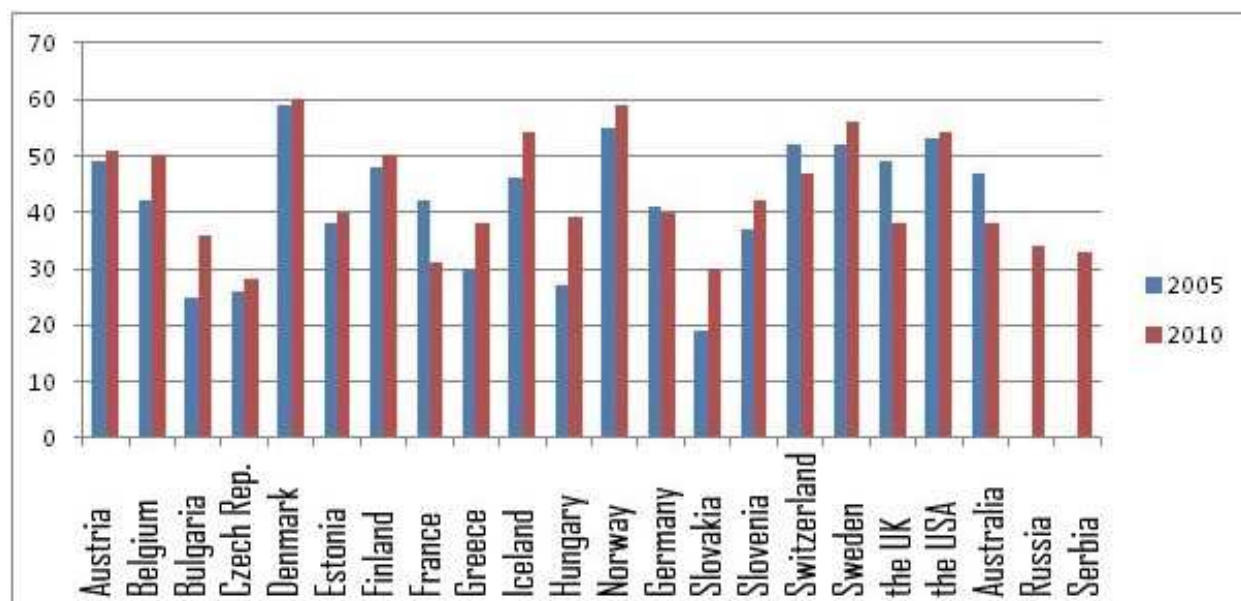


Figure 3 Operating costs accounted for by labour costs (2005 and 2010).

Source: Compiled based on Cranet, 2005, pp. 8-9 and Cranet, 2011, pp. 13-14

Operating costs accounted for by labour costs in most observed countries range between 30 and 50%. In 2005, this proportion was between 20 and 25%, mostly due to low wages. Monthly salary in former socialist countries amounted to between 300 and 1000 euros, while reaching up to 7000 euros (e.g. in Belgium). Thus, labour costs account for up to 60% of operating costs in Scandinavian countries with high welfare and social security. 2010 saw a growth in the share of labour costs in most countries, which is explained by a rise in wages and absolute values. A fall in the operating costs accounted for by labour costs only in France, Germany, Switzerland, the United Kingdom and Australia, most probably as the impact of economic and financial crisis.

Different wage determination levels

The diagram below shows ways of determining wages for manual personnel, i.e. whether wages are formed based on bargaining on individual, collective or national level. It must be noted that some respondents use several ways of determining wages.

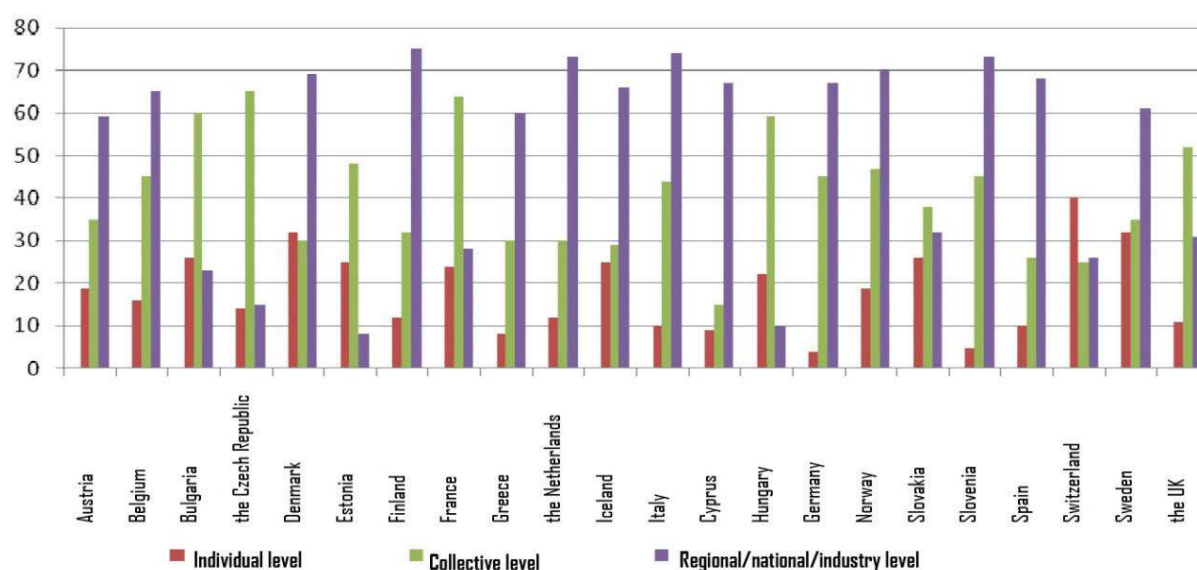


Figure 4 Various wage determination levels for manual personnel in 2005

Source: Cranet, 2005, p. 50

The 2005 data show that bargaining for manual personnel at regional, national or industry level was present in most European countries. Although these data do not show, it must be emphasised that the usual bargaining level for managerial positions was either individual or collective.

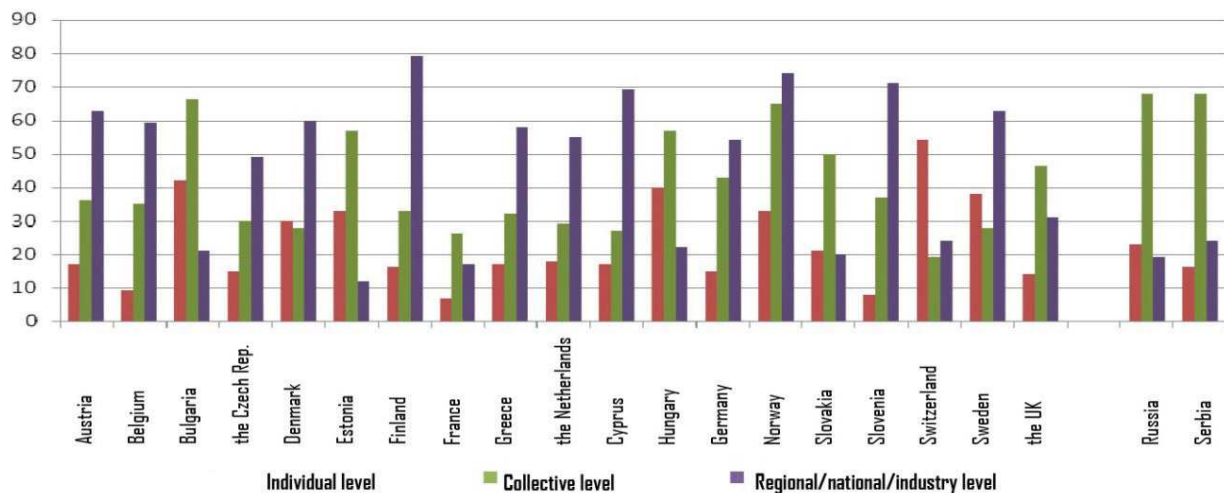


Figure 5 Various wage determination levels for manual personnel in 2010

Source: Cranet, 2011, p. 75

Incentives

Having overviewed the 2005 and 2008-10 data, it can be inferred that the practice of performance-related benefits has been on the rise. In 2010, about 60 to 70% of surveyed companies used this form of individual incentive. In some countries, however, such as Cyprus, Great Britain and Norway, performance-based pay is used in only 20 to 30% of companies.

Due to the nature of available data, this article will present a more detailed overview for collective incentives, more precisely shareplan, share options and profit sharing, as shown in Figures 6 and 7.

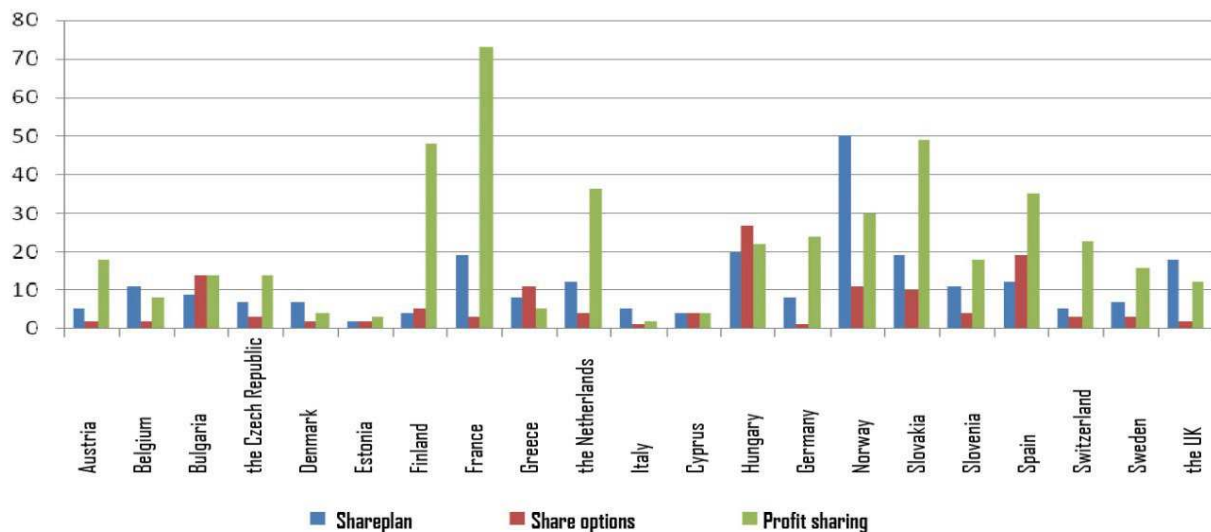


Figure 6 Collective incentives in 2005.

Source: Cranet, 2005, p. 50

Based on the 2005 data, the dominant incentive was profit sharing, i.e. sharing a part of the profit equally among employees, regardless of their personal performance. This form of collective incentive is primary in Finland, France, Slovakia, Spain, Switzerland and Sweden. The share options method is most widely used in Hungary, and shareplans in Norway.

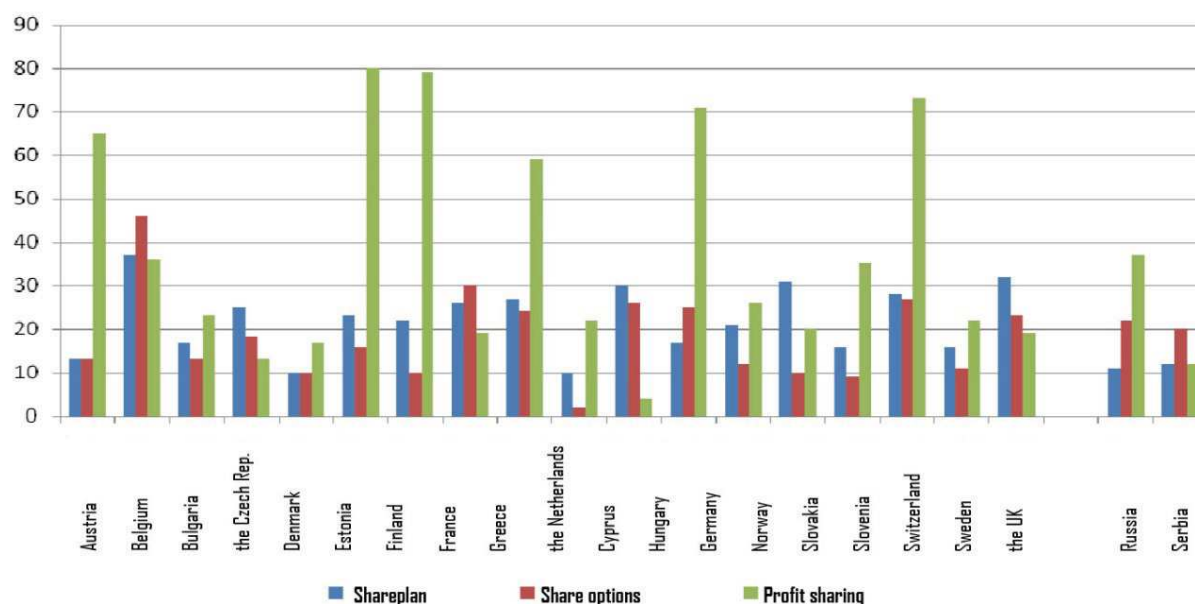


Figure 7 Collective incentives in 2005.

Source: Cranet, 2011, p. 69

The 2010 data indicate development of collective incentive, and a more pronounced domination of profit sharing. Share options are most used in Belgium and Greece, while shareplan is characteristic of Denmark, Slovakia and the United Kingdom. Collective bargaining at company level is less developed than in other observed countries, and share options are used most.

Conclusion

Compensation system development is a vital human resource management activity, as it influences significantly and directly the employees' attitudes and behaviour, as well as the company's overall performance. As remuneration system formation is influenced by numerous external and internal factors, essential differences in compensation systems are noticeable.

Cranet surveys, conducted from 2003 till 2005 and from 2008 till 2010, provide an overview of dominant remuneration practices applied in most European countries. Data analysis indicates that decisions on wages are, in most cases, made based on consultations between HR managers and line managers. The prime responsibility in countries with developed markets lies in the hands of HR managers (after consulting the line managers), whereas in transition countries, decisions on personnel's wages are made by line managers upon consultation with the HR manager. Operating costs accounted for by labour costs in most observed countries ranges between 30 and 50%, and wages are formed based on national-level bargaining. A growing role of collective bargaining in this process is noticed in former socialist countries. Incentives are gaining importance, and most used incentive at the organisation level is profit sharing. The obtained data confirm Brewster's scientific analysis (Brewster, Sparrow, & Vernon, 2007, p. 142), which argues that the modern forms of variable wages are gaining importance and contributing to companies' overall performance.

Knowledge of differences between national compensation systems is vital for international human resource management. Knowledge of best practices of compensation systems will assist HR managers in building a nationally adoptable, efficient system of compensations increasing employee satisfaction and corporate overall performance. **SM**

References

- Armstrong, M. (2007). *A handbook of human resource management*. London: Kogan Page.
- Brewster, C., Sparrow, P., & Vernon, G. (2007). *International human resource management*. London: CIPD.
- Cranet. (2005). *Cranet survey on comparative HRM – International executive report*. Cranfiled: Cranet.
- Cranet. (2011). *Cranet survey on comparative HRM – International executive report*. Cranfiled: Cranet.
- Martocchio, J. (2009). *Strategic compensation: A human resource management approach*. Upper Saddle River: Pearson-Prentice Hall.
- Milkovich, G. T., & Newman, J. M. (1999). *Compensations*. Boston: Irwin-McGraw-Hill.
- Stone, R. J. (2011). *Human resource management*. Milton: John Wiley & Sons Australia.
- Šušnjar, Š. G., & Zimanji, V. (2005). *Menadžment ljudskih resursa*. Subotica: Ekonomski fakultet u Subotici.

✉ Correspondence

Gizela Štangl Šušnjar

Faculty of Economics Subotica
Segedinski put 9-11, 24000, Subotica, Serbia
E-mail: susnjarg@ef.uns.ac.rs