The International Journal of Human Resource Management

ISSN: 0958-5192 (Print) 1466-4399 (Online) Journal homepage: http://www.tandfonline.com/loi/rijh20

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THE INTERNATIONAL JOURNAL OF HUMAN RESOURCE MANAGEMENT, 2017
VOL. 28, NO. 12, 1661–1689
https://doi.org/10.1080/09585192.2016.1277364

Management compensation systems in Central and Eastern Europe: a comparative analysis

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ABSTRACT

Drawing upon a large scale comparative data-set we explore the preferred approaches to managerial compensation pursued by organizations operating in the Central and Eastern European (CEE) transition economies of Bulgaria, the Czech Republic, Estonia, Lithuania, Hungary, Slovenia, Slovakia and Serbia. In order to generate insights on the state of management compensation and the extent to which these transition economies are characterized by idiosyncratic elements, relative to their Western European counterparts, we compare management compensation practices in these CEE economies ($N = 1147$) with approaches pursued in more developed western European economies ($N = 2698$). Overall, our results suggest that organizations in the CEE region share some similarities with their western counterparts, most especially in terms of the individual level of determination of pay for managers. Within the CEE region, we find that financial participation is less common than performance-related pay in the composition of the overall managerial reward package, though there are some variations between countries. National culture does appear significant as a determinant of variations in the preferred approach to management compensation.

KEYWORDS

Compensation; human resource management; Central and Eastern Europe; manager

Introduction

An organization's approach to compensation is an important indicator of its broader human resource management policies and practices and is fundamental to the employment relationship (Arrowsmith, Nicholaisen, Bechter, & Nonell, 2010). Compensation is viewed as a critical mechanism through which to develop and reinforce global corporate culture and can serve as an important fulcrum in the institutionalization of centralized corporate control, explicitly linking performance outcomes with the associated costs (Dowling, Festing, & Engle, 2008).

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Compensation plays a critical role in attracting and retaining key employees to the organization, in promoting ongoing job satisfaction and in motivating employees to achieve higher levels of performance (Fay & Thompson, 2001; Igalens & Roussel, 1999; Mudor & Tooksoon, 2011; Williams, McDaniel, & Ford, 2007). More broadly, implementing an above-the-norm compensation strategy, relative to competitor organizations, will often be presented as an important investment into the HR system and considered signal sending with respect to the organizations approach to human capital accumulation and retention (Way, Lepak, Fay, & Thacker, 2010). Labour costs, with the direct compensation element of these comprising the largest component of them, may represent up to 60% of the total operational costs of the organization (Štangl Šusnjar & Leković, 2009) and between 20 and 30% of the total compensation costs relate to social security costs. Such costs are highest among Western countries relative to their Eastern European counterparts (Bureau of Labor Statistics, 2012). There is therefore little doubting the strategic importance of compensation among the broader suite of HRM activities operated by the organization, but also the complexities and challenges that arise in seeking to achieve its different objectives.

In this paper we seek to explore the preferred approaches to managerial compensation utilized by organizations operating in the transition economies of CEE where there is an ongoing gap in our knowledge base, especially in light of the transition developments of the past two decades (Eriksson, 2005; Gorton, Ignat, & White, 2004; Morley, Minbaeva, & Michailova, 2012; Woldu & Budhwar, 2011). By way of brief context, the Soviet system existed in the CEE region for nearly 80 years. Communism was institutionalized in Russia in 1917. The other CEE nations which constitute our scope of interest in the analysis offered in this paper developed communistic governance systems after the Second World War, but importantly the region was not during the communist era, nor is it today, homogenous (Berend, 1996; Brewster & Bennett, 2010; Kornai, 1994; Morley, Heraty, & Michailova, 2009; Steger & Depkat, 2015; Svetlik et al., 2010).

In light of this, for the purposes of our analysis, we have chosen the CEE countries of Bulgaria, the Czech Republic, Estonia, Lithuania, Hungary, Slovenia, Slovakia and Serbia for investigation because transition economies are often complex and idiosyncratic, relative to their developed counterparts when it comes to the establishment of socially legitimate management policies and practices. Such complexity exists because transition economies may be underscored by a contestation between ongoing ideational legacies arising from both historical exigencies (Engerman & Sokoloff, 1997) on the one hand, and essential post-socialist transitions and endowments with natural resources (Yishay & Grosjean, 2014) on the other, the combination of which may result in unique developmental trajectories (Roaf, Atoyen, Joshi, & Krogulski, 2014; Süppel, 2003). The transition dynamics are seen to influence HRM practices in a multiplicity of ways as a result of new ownership structures (Festing & Sahakiants, 2011) specific labour market dynamics (Marelli & Signorelli, 2010), changing employment and unemployment systems

(Burda, 1996), novel management practices (Lewis, 2005), as well as altered industrial relations dynamics (Glassner, 2013) and shifts in the balance of power between new and different stakeholders operating in these economies (Lamy, 2012). As a result of these dynamics, it has been argued that reward systems in CEE are undergoing a radical transformation (Festing & Sahakiants, 2013). However, the CEE countries remain underexplored in terms of their HRM practices (Morley et al., 2012) and, of particular note, as Arrowsmith et al. (2010, p. 2717) highlight 'there remains surprisingly little cross-national research into payment systems'.

We focus our attention on the features of preferred approaches to compensation in CEE, specifically among managerial employees. In addition, in order to generate broader contextual insight on the state of management compensation and the extent to which the transition economies are characterized by idiosyncratic elements, we also compare the managerial compensation practices in these CEE economies with the approaches implemented among their more developed Western European counterparts. In particular, in an effort at landscaping aspects of the path dependency that characterizes CEE managerial compensation, we examine the manner in which basic pay and benefits are established for managers, where the responsibility for decision-making on compensation lies, along with the level at which compensation is negotiated for these managers. In an effort at understanding the overall reward mix offered to managerial employees, we explore variations in the use of performance-related pay vs. financial incentives. Finally, as part of our overall comparative analysis, we test the impact of aspects of national culture in accounting for commonalities and differences.

Theoretical background

Compensation is a systematic approach to providing monetary value and other benefits to employees in exchange for their work and service. Compensation plays a significant role in the attracting of employees with high potential, in retaining existing high performers and the ongoing motivation of all employees to achieve higher level of performances (Fay & Thompson, 2001). Compensation is an important factor influencing employees' satisfaction (Igalens & Roussel, 1999; Judge, Piccolo, Podsakoff, Shaw, & Rich, 2010; Mudor & Tooksoon, 2011; Siems, Goelzner, & Moosmayer, 2012; Williams, Brower, Ford, Williams, & Carraher, 2008), motivation (Arumugam & Mojtahedzadeh, 2011), organizational behaviour (Gupta & Shaw, 2014) and organizational performance (Gooderham, Parry, & Ringdal, 2008; Huselid, 1995). Brewster, Sparrow and Vernon (2007) highlight that contemporary compensation is more than just a payment 'in cash' with the non-monetary elements of the compensation such as non-statutory benefits, work autonomy, training and development opportunities and work-life balance provisions becoming increasingly important as part of the overall compensation package.

The establishment of the system of compensation, as one of the main activities of HRM, should be based on the simultaneous achievement of the strategic goals of the organization and the needs of employees (Gilmore & Williams, 2013). Compensation consists of basic salary with various additions in the form of incentives, designed at individual, group or organizational level, as well as benefits related to tangible and intangible elements for employees (Štangl-Šušnjar & Slavić, 2012, p. 32). Compensation strategies impact a suite of other HR domain areas and are often reflected in the allied activities of recruitment, selection, performance management, training, career development and industrial relations (Martocchio, 2009; Pfeffer, 1998) and must take account of the varying needs of a range of salient stakeholders encompassing employees, line managers, top managers, trade unions and the government.

It is obvious therefore that the development and institutionalization of a reward system is a complex and important part of HRM and often needs to be understood in a contextual way (Berrone, Marki, & Gomez-Mejia, 2008). The complexity of compensation increases when examined in comparative context, since multiple contextual issues form the backdrop to the analysis, including for example the influence of different national cultures, uncertainty due to the unfamiliar markets, different legal regulations related to the labour relations, variations in levels of economic development, heterogeneous social and political trends, along with different technologies and methods of work. Pay and conditions are especially complex therefore for MNCs which operate across different locations and cultures, and which employ an increasingly diverse workforce (Gomez–Mejia & Werner, 2008). In this context the transfer of reward management policies in MNCs is often determined by a blend of both push and pull factors and the nature of the regulatory environment in operation in the host location (Sayim, 2010). While there is some evidence that suggests that MNCs determine their rewards and incentives by reference to standards set by domestic organizations in the country in which they are operating (Singh, Mohamed, & Darwish, 2013), the relative degree of variation within and between local host contexts is critical to understanding compensation systems (Bloom, Milkovich, & Mitra, 2003).

Contextual influences, path dependency and the preferred approach to management compensation in CEE

While there has been a growing interest in the transition economies in the last years, the contemporary nature of HRM in these societies remains somewhat underexplored (Morley et al., 2012). Prior to the '90s, long tenure and relevant work experience were highly regarded (Pearce, 1991), and relative to other job categories, production and technical positions were well respected. The Socialist model of management was centralized with a strong emphasis on rules (Garavan, Morley, Heraty, Lucewicz, & Suchodolski, 1998; Koubek & Brewster, 1995; Pundziene & Buciuniene, 2009). Personnel management followed a similar pattern with a heavy emphasis on departmentalization, centralization and rule making. With respect to labour market systems in operation under socialism, it is possible to distinguish between at least three separate traditions in CEE. Firstly, there was an ex-Yugoslav tradition, with the legacy of a self-management system and relatively high incidence of open unemployment representing a relatively unique feature among socialist countries. It featured in for example Slovenia and Serbia (Arandarenko, 2004) and here important decisions, however, including those relating to personnel matters, were to be made by workers' councils (Svetlik et al., 2010). Secondly it is possible to identify a more Orthodox type of the Soviet system common in countries such as Bulgaria, Estonia, Lithuania and Russia. Here, the Central Planning Office played a critical oversight role (Ericson, 1991; Kornai, 1994). Thirdly, what might be referred to as more moderate forms of the Soviet system were institutionalized in countries such as the Czech Republic, Slovakia, Poland and Hungary where more local economic freedom allowed greater latitude (Brada & Dobozi, 1989; Kolodko, 1989).

In this period, compensation systems in the CEE countries were characterized by three major features: centrally planned wages, significant variable payments, and a wide variety of benefits. Although there were certain variations between compensation structures and their distribution between the countries, the above major features were common for most organizations (Festing & Sahakiants, 2013). In the case of managerial pay, cash bonuses were the predominant approach to variable pay, which was typically person-based, rather than performance-based (Morley, Poór et al., 2016).

The Socialist system was not conducive to the growth of more sophisticated, value adding activities, resulting in serious difficulties for emerging, transitioning economies of CEE to be able to support, sustain and expand a developmental trajectory based on free market principles (Morley, Slavić et al., 2016). Today CEE countries are seen as heterogeneous and their HRM patterns should not be taken as a uniform management model, which is evident from the country specific literature on this region) which points to the likelihood of contemporary practice being rooted in, and constrained by, earlier exigencies (Aguilera & Dabu, 2005; Kazlauskaite et al., 2013) vested in the ongoing reach of certain ideational legacies from the socialist period (Morley et al., 2012). In this way Festing and Sahakiants (2010) argue that the transfer of organizational knowledge to the CEE countries depends on the level of embeddedness of organizations in the old socialist system. Referred to as a 'path dependency effect', it has been characterized as 'an inertia in the process of change and that long-established and -enforced social mechanisms which have the tendency to reproduce themselves under changed circumstances' (Aguilera & Dabu, 2005, p. 20). Specifically in case of compensation, this path dependence can be observed through national legislation, pre-transformation imprinting on organizational practices, and on the nature and role of trade unions in the employment relationship (Festing & Sahakiants, 2013). They (Sahakiants & Festing, 2016) investigated the use of executive share-based compensation in Poland, and explored whether theoretical explanations developed in the context of developed countries also hold in the CEE context. They studied the determinants of using executive share-based pay and found the existence of a strong role for the state in Polish firms and called attention to the need to specifically consider principal–principal conflicts typical of emerging economies in post-state-socialist organizational research.

It has been argued that while the gap between CEE and Western countries, in relation to compensation, has been narrowing (Krkoska & Robeck, 2007), elements of socialist path dependency effect remain in evidence, vested in rudiments of bureaucracy and corruption arising more from the history, culture and business system in CEE than the people themselves (Buzady et al., 2015). Festing and Sahakiants (2013) emphasize that the path dependence of compensation in the CEE region is moderated by a number of sources of change, in particular the presence of both foreign owned multinational companies (MNCs) and international management consulting companies, a significant growth in the HR profession and its visibility within organizations, and generational change within the workforce. Many CEE countries sought to change their business systems in order to attract FDI. The removal of work-based welfare systems has made employment contracts more flexible and eroded trade union power, which has had knock on consequences for wage rates and for levels of labour regulation. These conditions, in combination, have resulted in a climate which is conducive to the adoption of particular practices and which has created new opportunities for MNEs (Poutsma, Moerel, & Ligthart, 2015, pp. 295, 296). Arising from the above we propose our first research hypothesis as follows:

H1: Arising from the path dependency effect, management compensation in CEE will differ from western countries.

Approaches to management compensation in CEE

Turning to the actual approaches to compensation pursued in CEE, there has been an increasing body of literature emerging in recent years (Berber & Štangl Šušnjar, 2013; Festing & Sahakiants, 2010, 2011, 2013; Karoliny, Farkas, & Poór, 2009; Morley et al., 2016; Odrakiewicz & Szulc, 2012; Pearce, 1991; Pearce, Branyiczki, & Bakacsi, 1993; Poór, Farkas, & Engle, 2012; Poór, Nikolić et al., 2012; Štangl-Šušnjar & Berber, 2014).

In their analysis of the development of compensation systems in the CEE countries of Czech Republic, Poland and Hungary Festing and Sahakiants (2013) compare the situation prior to the transformation and after the fall of state-socialist regimes. Their results highlighted that while major complementary institutions such as extensive state-socialist-type social welfare systems, which enhanced the developmental path during the state-socialist period, are now more or less non-existent during the transitional period, several factors at the macro, organizational and individual levels show links with the past path. Their research was an extension of an earlier enquiry made in 2010 where the same authors (Festing & Sahakiants, 2010) argued that there is a need for a separate study on the application of isomorphism theory in the transition of CEE economies which are characterized by relatively unstable environments. They called attention to several important factors influencing compensation practices in CEE including the influence of European Union (EU) membership, the spread of Multinational Companies (MNCs) in the CEE region, the changing role of trade unions, and the evolving market context (Festing & Sahakiants, 2010, p. 208).

Poór et al. (2012) found that variable pay determined by level of performance was offered far more commonly to all staff categories than financial participation. Where financial performance was offered, profit sharing was most commonly used (Karoliny et al., 2009). In the case of managerial compensation, European authors have demonstrated the strong impact of the regulatory environment on share-based compensation plans in the region, i.e. state shareholding has a major impact on the existence of such schemes in Polish public corporations, which could be considered as evidence of the rigid, direct regulation of executive pay, something which stands in contrast with practice in the Czech Republic and Hungary for example (Festing & Sahakiants, 2011). Berber and Štangl Šušnjar (2013) examined the compensation practices for professional workers and found that performance-related pay is used more often than financial participation in the case of professionals in the companies from the CEE region, similar to the results of Karoliny et al. from 2009, but instead of performance-based pay, bonuses based on individual goals were the most common form of variable pay used for professionals. According to Svetlik et al. (2010) bonuses based on the achievements of individual and managerial goals are increasingly important in Serbia. Financial participation techniques used in developed market economies – for example, employee share schemes, profit-sharing and stock options, remain relatively low in terms of up-take and spread, with only between 5 and 15% of organizations using them (Svetlik et al., 2010).

In a comparative analysis, Poutsma et al. (2015) examined the spread of the broad-based individual performance-related pay practices (PRP) among CEE and Western European companies. They explored the dominance effect of MNCs and the constraining effects of collective bargaining and union influence. Regarding the determinants of industrial relations, it is argued that, in general, decentralized firm-level bargaining supports the adoption of PRP schemes, whereas a greater degree of unionization tends to act as a means constraint on their adoption. They found high levels of broad-based individual PRP in CEE countries. The higher use of PRP in CEE in the region was viewed as an indicator that companies 'have gone out of their way to overtake their Western counterparts in the adoption of the new PRP practices in trying to catch up with the demands of the market economy' (Poutsma et al., 2015, p. 311). Building on these lines of enquiry, our second hypothesis is:

> H2: In the construction of management compensation packages in CEE, performance related pay schemes will be feature more commonly than financial participation schemes.

Cultural influences on management compensation in CEE

One set of theoretical arguments of particular value in examining evidence and continuity and change in comparative human resource management (CHRM) practices lie in the universalism-contextualism literature and the central role of culture as a determinant of variations in practices across countries. Referring to whether HRM practices are used in one universal form, or whether organizations operating across national boundaries pay attention to, and accept that cultural features in each country limit their agency with the result that they must adapt their HR practices and systems, it has proven especially illuminating in CHRM research (Gupta & Wang, 2003; Mayrhofer, Brewster, Morley, & Ledolter, 2011; Mcgaughey & De Cieri, 1999). The contextual paradigm implies that HRM practices are unique, and underscores the importance of recognizing and understanding the specifics of each country, as well as the differences and similarities between these countries. Contextualism postulates divergence whereby changes in HRM practices in different countries develop in different directions. The contextual view advocates that HRM practice is likely to be more effective if it is adapted to the specific context in which it is implemented. Chief among those theoretical frameworks which seek to advance our understanding on this front is the cultural lens (Hofstede, 2011). By way of the explanatory power of culture as a determinant of the preferred compensation system, Vaiman and Brewster (2015) argue that HRM policies and practices should be tested against both the cultural and the institutional explanatory factors in a balanced and meaningful way. Previous research has found that in cultures with high scores for uncertainty avoidance, pay-for-performance is less prevalent, especially in case of individual pay for performance and individual bonuses (Schuler & Rogovsky, 1998) and enterprise-based performance incentives systems (i.e. profit sharing and share scheme systems) (Prince, Prince, Skousen, & Kabst, 2016). It has been argued that firms from countries with a higher power distance culture will have an increased use of individual performance-based, team-based and pay for performance pay systems, profit sharing and share scheme systems (Prince et al., 2016). Pay-for-performance compensation practices have been found to be used more widely in countries with higher levels of individualism. A focus on individual performance in determining pay levels is also found to be more prevalent in countries with higher levels of individualism. Individual bonus/commission practices are more prevalent in countries with higher levels of individualism (Schuler & Rogovsky, 1998). However gaps remain in our knowledge as to the nature and extent of the influence of national culture on compensation systems and in their 2011 analysis of the effects of cultural orientations on preferred compensation practices, Yeganeh and Su conclude that 'while culture represents an important factor in human resource management, its effects on compensation preferences should be viewed as partial and moderate' (2011, p. 2609). Thus in order to further test this cultural hypothesis in the compensation practice domain area, we propose the following:

H3: National culture influences approaches to management compensation and results in variations in preferred approaches among the CEE countries under study.

Data, methods and measures

Our data is drawn from the Cranet Network survey. The survey is conducted approximately every four years in over 40 countries of the world (Brewster, Mayrhofer, & Reichel, 2011; Lazarova, Morley, & Tyson, 2008; Parry, Stavrou-Costea, & Morley, 2011; Steinmetz, Schwens, Wehner, & Kabst, 2011). The aim of the research is to provide high quality data for the purposes of academic, public and private sectors, as well as for students of human resource management, and to create new knowledge about human resource management practices in different countries of the world. The questionnaire was divided into six parts/sections: HRM activities in organization, staffing, employee development, compensation and benefits, industrial relations and communication, and organizational details (Parry, Stavrou, & Lazarova, 2013). Despite some methodological limitations, the Cranet survey have generated important empirical data since 1989/1990 providing ongoing empirical insights into the development of HRM practices in member countries, along with parallel theoretical contributions on comparative HRM (Karoliny et al., 2009; Mayrhofer, 1998; Parry et al., 2011).

Respondents were asked to indicate whether or not they use several elements of financial participation and performance-related pay. The questionnaire contains closed questions, and respondents were asked to choose from a set of alternative pre-formulated options. Research data were analysed using SPSS version 21 software. The questionnaires were completed by managers of companies with more than 50 employees in 3845 organizations from Europe, including 2698 organizations from Western European countries and 1147 organizations from CEE countries (where seven of them are members of EU and Serbia, which is in the process of accession to EU). For the purpose of comparative analysis between Western European and CEE countries regarding management compensation, a Pearson χ^2 test and Cramer's' V coefficient of association were employed as the variables were dummy (0 = no and 1 = yes) in most cases. The analysis proceeded in two stages. In the first instance the primary responsibility for compensation, the level of negotiation about compensation, and the extent of the usage of different incentive techniques for managers were analysed. Elements of financial participation in terms of profit, share and option plans, and elements of performance-based pay in terms of individual and team bonuses and pay for individual performance were examined. We explored differences between CEE countries and Western EU countries regarding mentioned variables. In the second phase of the analysis we explored the relationship between cultural dimensions and management compensation, controlling for size, sector, industry, the main business market orientation of the firm, and union density. Cultural impact was explored using Hofstede's dimensions of power distance and individualism/collectivism

(2001). Business market orientation was an ordinal variable (1 = local market, 2 = regional, 3 = national, 4 = continental and 5 = worldwide). Level of unionization was measured with an index where 1 = no employees being members of a trade union and 7 = more than 75% of employees being in membership. Sector was dived into private, public and mixed while industry was recorded as production (0) or service (1) sector. Size of the organization was measured as small (1 = less than 50 employees), medium (2 = from 50 to 250 employees), large (3 = from 250 to 1000) and very large (4 = more than 1000 employees).

Table 1 presents the main macroeconomic indicators for 2012 and a brief description of compensation practices obtaining in CEE countries included in our analysis.

Table 2 gives a short overview of the sample of this research. In Table 2 the list of analysed countries may be found from EU and from CEE region.

Table 3 presents the cultural dimensions of power distance and individualism/collectivism of the countries from the CEE region derived from Hofstede (2010) and using a scale from 0 to 100.

Results and discussion

We explored out first and second hypothesis through the analysis of the primary responsibility for compensation, the level of negotiation about compensation, and the extent of the usage of different incentive techniques for managers. The primary responsibility for the major policy decisions on pay and benefits relates to the decision-making process in the area of compensation. In some countries, the regular business practice means that line managers bring decisions on compensation, while in the others such decisions are taken in consultation between line manager and HR manager. There are also cases where decisions related to compensation are made independently by the HR department and HR managers – this practice involves complete freedom and autonomy in decision-making process. The predominant practice of European human resource management involves collaboration between HR department and line management. But, in some countries HR managers do not make decisions on compensation alone, and in some cases, HR managers are even ignored in the process. The following analysis gives the primary responsibility for defining wages and benefits in the countries of Europe.

From the data in Table 4 it is obvious that line managers have the main role regarding decisions about basic pay and benefits (52% of all companies). This trend is especially evident in Bulgaria (74%) and Serbia (73%). In other countries the percentages of organizations where line manager make decisions about compensation vary from 40% to 58%. Only in the Czech Republic this percentage is 19%, and decisions about compensation are made in consultation between line manager and HR manager. It is important to emphasize that HR department has the responsibility for compensation in 6% of all companies. In the case of Estonia

Table 1. The overview of the sample – main macroeconomic indicators and compensation practice of the CEE countries.

State	Number of citizens (millions)	GDP per capita (US $)	Growth rate of GDP (%)	Unemployment rate (%)	Compensation practice
Bulgaria	7.3	6.977	.8	12.3	Line managers at the individual level are usually responsible for compensation. Incentive pay is used mostly for managers and professionals, while non-financial benefits are used less (Vatchkova, 2009, pp. 26–264). A minimal wage is defined, and collective bargaining is used in defining compensation system. Private insurance systems and incentives are not mandatory. Additional benefits are usually given to senior managers
Czech Republic	10.5	18.690	−1.0	7	A decentralized approach to define basic wage is used at the individual level, except in public companies. An increase in the usage of incentive pay is detected. The non-financial benefits are used for managers and highly qualified staff and there is a general expanse trend concerning this area (Koubek, 2009, pp. 150, 151). The minimum wage is defined as monthly salary, while production workers are paid by the produced quantity. Share schemes and profit sharing are commonly used in the MNC subsidiaries
Estonia	1.3	16.833	3.9	10.1	A decentralized approach is used to define basic wage, managerial salaries are defined at the individual level, while there is an increase in the use of incentive pay (Alas & Kaarelson, 2009, p. 45). A minimum wage is defined, while private pension funds and schemes for rewarding employees with profit or shares are used in a very small extent
Hungary	9.9	12.560	−1.7	10.9	Compensation system is defined at the individual level for managers; and on the enterprise level for other employees. Variable pay in terms of performance-based pay is used in a greater extent than the financial participation (Karoliny et al., 2009, p. 33). The government annually sets a minimum wage; the pay is based on the basis of hourly rates or performances. Large companies and foreign companies use different types of incentive earnings. Use of external providers when developing, running and managing pay and benefits systems is widespread (Poór, Karoliny, Alas, & Vatchkova, 2011, p.439)
Lithuania	2.9	14.172	3.7	13.2	Compensation is affected by factors such as inflation, regulation, labour markets, unions, organizational changes, ownership, specific industry in which companies operate. Bonuses are paid annually, usually for managers. The benefits are related mainly to health insurance and travel insurance, and family benefits are still present at a very low level (Pundziene & Buciuniene, 2009, pp. 75, 76). A minimum wage is determined

(*Continued*)

Table 1. (*Continued*).

State	Number of citizens (millions)	GDP per capita (US $)	Growth rate of GDP (%)	Unemployment rate (%)	Compensation practice
Slovakia	5.4	16.893	1.8	13.9	Compensation system is decentralized, unlike the pre-transition period when it was in the hands of the government. It is linked to the organizational strategy. Regional coefficients are used for the regulation of wages. The highest income levels are in the Bratislava, the capital of the country. The variable salary is increasingly related to the performances. Incentives are used for managers and sales staff, while 16% of organizations consider using a cafeteria system (Kachanakova et al., 2009, pp. 176, 177). A minimum wage is determined. The private pension funds are used to a lesser extent
Slovenia	2	22.059	−2.5	8.8	In the pre-transition period wage-determination was very bureaucratic, while today they are more decentralized, oriented towards rewarding performance. The usage of financial participation, in the form of share schemes and profit sharing, is increased (Svetlik, 2009, p. 234). The law defines the minimum wage. Earnings consist three parts: basic salary + salary for performance + additional payments (night work, overtime, etc.)
Serbia	7.2	4.453	−1.7	21	The government defines the minimum wage. The compensation system usually consists of the following elements: basic pay, bonuses, compensation, premium and overtime pay. Most organizations use traditional pay calculation systems, such as seniority, hourly wage and wage brackets. Alternative pay determination systems include productivity-based payments, competence model and wage bracket integration (Štangl-Šušnjar &Slavić, 2012). The low economic standard reduced payments to the minimal income while pension benefits, disability insurance and unemployment insurance cannot be avoided (Štangl-Šušnjar & Leković, 2009)

Source: Authors' analysis based on data from World Bank (2012) Database and Eurostat for 2012 and available literature (cited in table).

Table 2. The sample of countries used in the research – EU and CEE countries.

EU without CEE countries		CEE countries	
Austria		Bulgaria	
Belgium		Czech Republic	
Cyprus		Estonia	
Denmark		Lithuania	
Finland		Hungary	
France		Slovakia	
Germany		Slovenia	
Greece		Serbia	
Ireland			
Italy			
Netherlands			
Sweden			
United Kingdom			
Sample statistics			
Number of organization from EU	2698	Number of organization from CEE region	1147
% of total sample	70.2	% of total sample	29.8
Total number of organization		3845 (100%)	

Source: Authors' analysis based on Cranet data.

Table 3. The cultural dimensions of CEE countries used in the analysis.

CEE countries	Power distance	Individualism vs. collectivism
Bulgaria	70	30
Czech Republic	57	58
Estonia	40	60
Hungary	46	80
Lithuania	42	60
Slovakia	100	52
Slovenia	71	27
Serbia	86	25

Source: http://www.geerthofstede.nl/dimension-data-matrix.

and Hungary organizations do not use HR department, when making decisions about this issue, at all.

According to the data in Table 5 we can conclude that there is a statistically significant relation between EU and CEE countries regarding the responsibility for pay and benefits. In EU this decision is made by HR manager in consultation with line manager, while in CEE countries line manager is primarily responsible for compensation decisions. These associations are statistically different ($\chi^2 = 728.725$, $p = .000$) and the level of association between these variables was relatively strong (Cramer's V = 0444).

Table 6 presents the level of negotiation for the determination of managers' basic pay. According to the analysed data, it can be concluded that the most commonly used level is the individual level (almost 70% of all companies from the CEE). In addition, the company or division level is also commonly used for the determination of managerial pay (47% of all companies use it). The smallest usage is related to the regional collective and site level bargaining.

In Estonia around 90%, Slovenia about 80% and in Hungary about 75% of respondents claimed that they use individual level of negotiation about

Table 4. The responsibility for major policy decisions on compensation in CEE countries.

	The primary responsibility for major policy decisions on pay and benefits (%)			
CEE with Serbia	Line management	Line management in consultation with HR	HR in consultation with line management	HR department
Bulgaria	74.1	18.4	5.5	2.0
Czech Republic	18.9	39.6	35.8	5.7
Estonia	40.8	40.8	18.3	0
Hungary	57.8	23.7	18.5	0
Lithuania	49.5	24.3	18.0	8.1
Slovakia	40.8	19.2	24.9	15.0
Slovenia	40.9	29.8	22.6	6.7
Serbia	72.9	20.8	4.2	2.1
Total	51.9	24.6	17.6	5.9

Source: Authors' analysis based on Cranet data.

Table 5. Differences between CEE and EU countries regarding the responsibility for major policy decisions on compensation.

	The primary responsibility for major policy decisions on pay and benefits (%)			
	Line management	Line management in consultation with HR	HR in consultation with line management	HR
EU	**11.7**	**31.3**	**38.4**	**18.6**
CEE	**51.9**	**24.6**	**17.6**	**5.9**
Total	23.6	29.3	32.3	14.8
χ^2	*p*	**728.725**	**.000**	
Cramer's V		**.444**		

Source: Authors' analysis based on Cranet data.

Table 6. The level of negotiation about pay and benefits for managers in CEE countries.

	Level of negotiation (% of companies that use different levels)				
Country	National/ industry wide	Regional collective	Company/ division	Establishment/ site	Individual
Bulgaria	29.4	12.7	47.1	39.7	68.9
Czech Republic	9.3	27.8	20.4	7.4	44.4
Estonia	15.6	1.6	67.7	31.1	89.2
Lithuania	3.4	3.4	21.8	34.5	48.7
Hungary	19.8	5.8	49.5	12.2	75.6
Slovakia	12.3	6.1	48.6	16.1	60.2
Slovenia	68.5	9.9	54.0	10.0	79.2
Serbia	43.8	13.6	94.1	14.3	67.9
Total	26.9	8.6	47.2	22.1	67.1

Source: Authors' analysis based on Cranet data.

compensation. This is the most often used level of negotiation. Besides, the company level is used in some greater extent in Bulgaria, Estonia, Hungary, Slovakia and Slovenia; while in Serbia 94% of companies use this kind of negotiating about compensation. It is obvious that in case of CEE countries there is no large deviation in negotiation about compensation. Regional collective bargaining is not used to a large extent, like branch-level bargaining. The national level of negotiation about compensation is used often only in Slovenia and Serbia.

Table 7. Differences between CEE and EU countries regarding the level of negotiation about pay and benefits for managers.

Country		Level of negotiation (% of companies that use different levels)									
		National/industry wide for management		Regional collective for management		Company/division for management		Establishment/site for management		Individual for management	
EU		**37.1**		**7.1**		**35.2**		**22.6**		**71.4**	
CEE		**26.9**		**8.6**		**47.2**		**22.1**		**67.1**	
Total		34.3		7.5		38.5		22.5		70.2	
χ^2	p	**30.647**	**.000**	**5.006**	**.082**	**39.776**	**.000**	**.098**	**.754**	**6.181**	**.013**
Cramer's V		**.096**		**.040**		**.110**		**.006**		**.043**	

Source: Authors' analysis based on Cranet data.

Table 8. The extent of the usage of variable pay in CEE countries for managers.

Countries	Financial participation %			Performance-related pay %			
	Employee share schemes	Profit sharing	Stock options	Flexible benefits	Performance-related pay	Bonus based on team goals	Bonus based on individual goals
Bulgaria	14.3	24.9	10.3	28.6	49	44.1	53.6
Czech Republic	5.6	11.1	3.7	42.6	37	38.9	53.7
Estonia	14.8	25.4	11.5	63.6	65.2	49.2	66.1
Lithuania	8.4	13.4	14.3	31.1	42.9	41.2	48.7
Hungary	15.8	15.8	11.5	49.6	41	29.5	56.8
Slovakia	28.8	20.9	9.3	24.7	53.2	43.5	54.9
Slovenia	13.6	29.7	8.4	61.7	76.4	42	77.5
Serbia	9.4	15.6	21.2	18.8	80.5	43.8	43.8
Total	16.2	21.3	10.5	39.8	55	41.2	58.9

Source: Authors' analysis based on Cranet data.

According to the data in Table 7 we can conclude that there are statistically significant associations among EU and CEE countries regarding the level of negotiation on pay and benefits. In EU this negotiation is usually made on national and individual level, while in CEE countries this negotiation is usually made on company and individual level. These associations are statistically different for national level ($\chi^2 = 30.647$, $p = .000$), company level ($\chi^2 = 39.776$, $p = .000$) and for individual level ($\chi^2 = 6.181$, $p = .013$). The levels of association between variables are weak (Cramer's V from 0043 to .110).

Table 8 presents an overview of the usage of financial participation and performance-related pay in managerial compensation in the analysed eight countries. It can be concluded that financial participation is used less (employee share schemes for management are used in 16% of all organizations, profit sharing for management 21% and stock options for management 10%) than performance-related pay (flexible benefits for management are used in 40% of cases, performance-related pay for management 50%, bonus based on team goals for management 41% and bonus based on individual goals for management in 59%), but there is diversity among countries. Within the category of financial participation for managers,

Table 9. Differences between CEE and EU countries regarding the extent of the usage of incentive pay for managers.

	Financial participation %				Performance-related pay %		
Country	Employee share schemes	Profit sharing	Stock options	Flexible benefits	Performance-related pay	Bonus based on team goals	Bonus based on individual goals
EU	**18.5**	**31.0**	**18.4**	**35.3**	**44.8**	**39.8**	**62.3**
CEE	**16.2**	**21.3**	**10.5**	**39.8**	**55.0**	**41.2**	**58.9**
Total	17.9	28.3	16.2	36.6	47.8	40.2	61.3
χ^2 *p*	**2.632** **.105**	**33.435** **.00**	**32.576** **.00**	**6.264** **.012**	**30.559** **.00**	**.556** **.456**	**3.535** **.06**
Cramer's V	**.027**	**.098**	**.097**	**.042**	**.093**	**.013**	**.031**

Source: Authors' analysis based on Cranet data.

Table 10. The result of the logistic regression – financial participation.

	Share schemes			Profit sharing			Option plans		
	B	Sig.	Exp (B)	B	Sig.	Exp (B)	B	Sig.	Exp (B)
Size of organization	.304	**.013**	1.355	–.270	**.018**	.763	.467	**.001**	1.595
Private sector	1.055	**.005**	2.872	1.352	**.000**	3.864	1.587	**.003**	4.889
Public sector	–.466	.385	.627	–.254	.605	.776	.433	.508	1.543
Mixed sector	–.597	.585	.551	1.285	**.042**	3.616	.041	.972	1.042
Industry (production or service)	.629	**.002**	1.876	.200	.272	1.222	.292	.235	1.339
Main business market	.164	**.040**	1.178	.133	.062	1.142	.024	.799	1.024
Union density	.018	.786	1.018	.085	.140	1.089	.051	.507	1.052
Power distance	.011	**.016**	1.011	–.008	.107	.992	–.013	**.043**	.987
Individualism vs collectivism	.002	.703	1.002	–.018	**.001**	.982	–.007	.345	.993
Constant	–4.973	.000	.007	–1.067	.095	.344	–3.766	.000	.023
Tests of Model Summary	*Sig* = *.000* –2 Log likelihood =709.970 Cox & Snell *R* = .071 Nagelkerke *R* = .119			*Sig* = *.000* –2 Log likelihood = 837.769 Cox & Snell *R* = .069 Nagelkerke *R* = .106			*Sig* = *.000* –2 Log likelihood = 536.498 Cox & Snell *R* = .038 Nagelkerke *R* = .077		
Correct predictions	83.2			78.1			89.5		

Source: Authors' analysis based on Cranet data.

profit sharing is more common than share schemes or stock option schemes. In the category of variable pay based on the performance, team bonuses are less common than bonuses based on individual goals for management and performance-related pay. It appears that flexible benefits show a higher variance among countries (from 19% to even 64%).

According to the CRANET Report (2011) the diversity in some elements of the compensation system is based on cultural differences in the acceptance of these forms of variable pay as well as differences in business regimes. There is a considerable diversity in the use of financial participation schemes among the countries of CEE, too. A remarkable usage of share plans can be found in Slovakia – the percentage of companies using share schemes is around 29%. Countries where 10–20% of companies use share schemes are Hungary, Estonia, Bulgaria and Slovenia. The Czech Republic and Lithuania use share schemes less than 10%. In the case of Serbia, it is obvious that this country is in the third group, where this kind of financial participation is used less than 10%, as this percentage here is 9% here.

A high share of companies that use profit sharing is found in Slovenia (from 30 to 40%). In Slovakia, Estonia and Bulgaria the use of profit sharing is below 30%. It is interesting that in some EU countries, for example in the Czech Republic and Hungary profit sharing is used less than 15%. In Serbia about 16% of companies use this kind of variable pay which is in line with the mentioned EU countries. On the other hand, the use of stock options in CEE countries is very low, only 10% of all organizations offer it. These trends can be explained by the fact that ownership is highly valued, and shareholders wish to keep control over the enterprise and its resources; so they reward managers by profit sharing instead of stock share or options.

Based on the Cranet survey data of 2003/5 Slovenia and Slovakia had higher scores in the use of performance-related pay than the USA. The explanation for it phenomenon was that these post-communist states offered ample opportunities for organizations to model the employment relationship to performance oriented arrangements (Cranet, 2011). In the current survey the level of performance-related pay is generally higher in most countries, suggesting that the trend towards performance-related pay is persistent. The most significant use of flexible benefits for management is present in Hungary, Estonia and Slovenia (around 50% of companies).

Pay for performance is often used among countries in the CEE. In Estonia, Slovakia and Slovenia the usage of this element of performance-related pay can be found in over 50% of the companies. It is interesting that 80% of Serbian companies use this kind of reward, based on our sample. The importance of bonuses based on the achievements of individual and managerial goals are increasing, while pay for performance is in great advance. As far as bonus-based rewards are concerned, bonuses based on individual goals are used more often than bonuses based on team goals. The most significant use of bonuses based on individual

Table 11. The result of the logistic regression – performance-based pay.

	Flexible benefits			PfP			Individual bonuses			Team bonuses		
	B	Sig.	Exp(B)	B	Sig.	Exp (B)	B	Sig.	Exp (B)	B	Sig.	Exp (B)
Size of organization	.553	**.000**	1.739	.154	.092	2.826	.497	**.000**	1.644	.473	**.000**	1.605
Private sector	.963	**.000**	2.618	.724	.222	10.625	.654	**.004**	1.923	.337	.139	1.401
Public sector	−.096	.754	.909	−.063	.274	.052	.019	.947	1.019	−.461	.125	.631
Mixed sector	.952	.057	2.590	.631	.479	1.739	1.079	**.045**	2.942	.677	.163	1.967
Industry (production or service)	.255	.110	1.290	.292	.150	3.787	.448	**.004**	1.566	.183	.236	1.201
Main business market	.089	.144	1.093	.084	.058	2.072	.142	**.018**	1.153	.120	**.045**	1.127
Union density	.080	.104	1.084	.099	**.047**	4.465	.070	.143	1.073	−.033	.499	.968
Power distance	−.030	**.000**	.970	−.005	**.004**	1.677	−.012	**.003**	.988	−.005	.212	.995
Individualism vs collectivism	−.013	**.006**	.987	−.023	**.004**	26.813	−.016	**.000**	.984	−.015	**.002**	.986
Constant	−.388	.463	.678	.102	.478	.046	−.585	.237	.557	−1.093	.029	.335
Tests of model	*Sig* = .000			*Sig* = .000			*Sig* = .000			*Sig* = .000		
Summary	−2 Log likelihood = 1057.186 Cox & Snell R = .123 Nagelkerke R = .166			−2 Log likelihood = 1166.257 Cox & Snell R = .067 Nagelkerke R = .090			−2 Log likelihood = 1118.606 Cox & Snell R = .083 Nagelkerke R = .112			−2 Log likelihood = 1102.376 Cox & Snell R = .068 Nagelkerke R = .092		
Correct predictions	66.1			60.5			64.0			63.2		

Source: Authors' analysis based on Cranet data.

goals (over 60%) is present in Estonia and Slovenia. In Slovenia the percentage of companies that use individual bonuses is over 70%.

It can be concluded that individual performance-related pay elements (bonuses for individual goals for managers) are used to a great extent since the individual performance criteria and bonus size organizational choice appear to constitute a promising avenue for those seeking to improve the performance of their compensation systems (Chênevert & Tremblay, 2011; Milkovich & Newman, 1999; Tremblay & Chênevert, 2008). Based on the results, Hypothesis 1 was confirmed.

According to the data in Table 9 we can conclude that there are statistically significant associations between EU and CEE countries regarding the usage of variable pay. These associations are statistically significant for profit sharing ($\chi^2 = 33.435$, $p = .000$), stock options ($\chi^2 = 32.576$, $p = .000$) flexible benefits ($\chi^2 = 6.264$, $p = .012$) and for performance-related pay ($\chi^2 = 30.559$, $p = .000$). The levels of association between variables were weak (Cramer's V from .031 to .010). Based on the results of the analysis from Tables 7–12, Hypothesis 2 is confirmed.

From the above results it can be concluded that organizations in the CEE region have to some extent similarities with their Western neighbouring countries. All organizations perform complex compensation systems for their managers, regarding the usage of all types of incentive pay, where PFP is used to a greater extent than financial participation. This is also seen in the case of Western EU countries, with the fact that organizations from the CEE region are using these schemes less than organizations from the Western part of EU. Regarding the negotiating process on compensation and benefits, it can be concluded that the most often used level in the CEE region is the individual level. Besides, the company or division level is also commonly used for the determination of managerial pay. The smallest usage is related to the regional collective and site level bargaining. The patterns of negotiating process on compensation and benefits in the CEE are similar with the other EU countries. In the case of the decision-making process on basic pay, line managers have the main role regarding decisions about basic pay and benefits in the CEE. It is important to emphasize that HR department has the responsibility for compensation in only 6% of all companies. This is totally different from the practice of other EU countries, where HR manager and line manager cooperate in this process. Also, in the Western EU countries, HR department is more involved in decisions on basic pay. This is the only part of compensation management where the differences among the CEE and Western EU are quite evident.

Since there are differences and similarities between countries inside the CEE region, and between the CEE region and other parts of EU, the authors decided to explore the nature of these differences. The final stage of the exploration on differences between the practices of compensation for managers was to explore the relationships between the usage of different elements of compensation and perceived cultural dimensions, according to Hofstede's classification.

We regressed the cultural scales employed in our analysis on each of the incentive pay categories for managers that we explored in our analysis. In the analysis, we paid attention to the problems of multicollinearity, which are frequently seen in analyses with the cultural dimensions due to their high inter-correlations. SPSS achieved high multicollinearity (tolerance < .10 and VIF > 10.0) for all five dimensions. The multicollinearity statistics for several dimensions was slightly worse in the assessment of the multicollinearity, so the regressions were re-run with the masculinity vs. femininity, uncertainty avoidance, and long-short term scales removed. In the final logistic regression theses dimensions were not used.

According to data in Tables 10 and 11 logistic regression models were significant ($p < .05$) in all 7 cases. Correct predictions according to the classification tables were from 60% for performance-based pay to 89% for share schemes. Factors which have determined the usage of variable pay in CEE region were size of organization and sector of business, while industry, market, and level of unionization were found as significant in only a few cases. Cultural dimensions of power distance and individualism vs. collectivism were found to be significant determinants of the usage of variable pay for managers.

In case of share schemes for managers, factors such as size of organization (larger organizations), private sector, service industry, higher power distance and international business market were significant as predictors of the usage of this incentive plan ($p < .05$) and if organization has all these characteristics, it will use share schemes more often to reward their managers. Profit sharing for managers is predicted by size, private and mixed sector, and the level of individualism ($p < .05$). If organizations have higher numbers of employees, and if they come from private or mixed sectors, they will use profit sharing more, but if organizations have higher scores of individualism, they will use profit sharing for managers less often. Higher organizations from private sector will use share options more, while higher degree of power distance will decrease the usage of this element of financial participation. In case of performance-based pay, the usage of flexible benefits was predicted by each cultural dimension used in the regression and size and sector. If organizations are from the countries with high power distance and individualism they will use flexible benefits less often, while if those organizations have more employees and if they come from the private sector, they will use flexible benefits more in rewarding their managers. Regarding the usage of pay for performance and individual bonuses for managers, organizations with high power distance, and individualism will use them less often. Also, larger organizations, from private or mixed sectors, from the service industry, and those which are more oriented to the international business market will use individual bonuses more often as an incentive technique for managers. For team bonuses, organizations form countries with higher scores on individualism will use them less often. Size and business market were also significant predictors for team bonuses, and, based on the results from Table 11; larger organizations which operate on the international market will use team bonuses more than other organizations. Based on the results of the analysis, Hypothesis 3 was therefore supported.

Discussion and implications

In our effort at furthering a comparative analysis of managerial compensation and in order to contextualize and locate our hypotheses on differences between CEE transition economies and the Western European Counterparts, we developed and tested three hypotheses referring to differences in management compensation between CEE countries and their western counterparts as a result of path dependencies, differences in the composition of the compensation package with a preference for PRP in CEE, and within region country differences arising from cultural influences. These three lines of enquiry set the framework for our subsequent empirical analysis.

Overall, organizations in the CEE region exhibit some similarities with their Western neighbouring countries. All organizations operate complex compensation systems for their managers. Our analysis reveals a marked preference for decentralized compensation systems, with a defined minimum wage. The primary responsibility for the major policy decisions on pay and benefits differs in CEE countries relative to their Western European Counterparts, the former showing a preference for line managers being primarily responsible for compensation decisions, while in the case of the latter, the HR manager takes a lead, in consultation with line managers. This is different from the practice of other EU countries, where the HR manager and the line manager cooperate in this process. Also, in the Western EU countries, the HR department is more involved in decisions on basic pay. This is the domain area where the differences among the CEE and Western EU are most evident. Concerning the level at which pay is negotiated for managers, this most commonly occurs at the individual level, followed by the company or divisional level. Managerial compensation is rarely determined through collective bargaining. There are statistically significant associations between CEE countries and their Western European counterparts and the level at which pay and benefits are negotiated. In Western European economies this usually is made at national and individual level, while in CEE countries this negotiation is usually made at company and individual level. In the context of CEE, this trend can be explained on the basis that after the political transformation the role of the trade union in collective wage bargaining is significantly circumscribed. Generally, organizations from EU and CEE use individual level of determination when negotiating pay for managerial employees. When it comes to the elements that constitute managerial compensation in CEE, financial participation is used less than performance-related pay but there is some diversity among countries. Within the category of financial participation for managers, profit sharing is more common than share option schemes or stock options. In the area of variable pay based on the performance, team bonuses are less common than individual bonuses. Similar trends are also seen in the case of Western EU countries, with the fact that organizations from the CEE region are using these schemes less than organizations from the Western part of EU.

The results of the analysis of the impact of national culture on management incentive compensation in the CEE are also interesting. Cultural dimensions of power distance and individualism vs. collectivism were found to be significant determinants of the usage of variable pay for managers. Those dimensions can explain some of the differences between countries regarding the usage of managers' incentive pay. Although culture has significant influence on management compensation, there are present some variations from these dimensions. This can be explained in term that managers' compensation is usually determined on the individual level, where Brewster et al. (2007, p. 131) noted that many nations show the real tendency of certain dimensions, but at the individual level, there are significant discrepancies. Also, Brookes, Croucher, Fenton-O'Creevy, and Gooderham (2011) found that institutional, and more specifically, labour relations factors, have more explanatory power of HRM practices than cultural factors.

Countries that are used in the exploration of managers' compensation undergone through the process of transition, which is characterized by the privatization of state – social enterprises; restructuring of large companies; establishment of a market economy instead of planned economy; reform of social institutions, and the like. The entry of foreign capital in terms of foreign direct investment and the arrival of foreign managers in leadership positions in the privatized enterprises caused changes related to the whole business concept, and by that in HRM, also. According to Poutsma et al. (2015) the economic transition in CEE countries has made institutional regimes more open to new practices. Isomorphic pressures in these countries may also account for faster adoption of new practices by domestic firms, resulting in the convergence of pay practices towards individual PRP. Overall, viewed in the light of their rather distinctive points of departure at the commencement of the transition process some twenty-five years ago, the results are suggestive of some similarities among the transition economies in the case of the usage of incentive compensation. Beyond this, the CEE region demonstrates a capacity for the absorption of foreign know-how in the form of financial participation and some new bonus techniques in parallel with relatively high and ongoing cultural embeddedness.

The implication of this research is related to the new insights in the management compensation systems in the CEE region. We proved that although there are similarities between CEE and WE, possibly because of their desire to catch up with the demands of the market economy and the influence of the FDIs and MNCs that operate in this regain, in terms of the usage of variable compensation for managers, the influence of national culture, measured with power distance and individualism/collectivism still have stronger influence and by that, still provoking differences in this HR area. We proposed that this stage of development in compensation practice can be understand in terms that the CEE region demonstrate high capacity for the absorption of foreign know-how (under the influence of the business) in parallel with relatively high and ongoing cultural influence. We stressed the importance of both, the importance of path dependency, which is specific for transition and developing countries in the CEE region, and the influence of the culture in these countries.

The second implication is related to the actual compensation practice for managers in the CEE region. Our results showed that individual PRP is used mostly as variable incentive. This information is important especially for HR managers and members of remuneration committees who are responsible for designing appropriate and attractive compensation packages for managers. Companies that are planning to locate their business in this area should plan and develop incentive packages based on the individual performances in order to stimulate their managers to accomplish their goals. Also, since there is a significant inflow of FDIs and influence of MNCs in the CEE region, a recommendation for those companies is to carefully analyse national culture in order to adapt their HR practices in certain business environment. Perception of the culture of different countries is an important factor, since it affects the development of HRM and has impact on existing and potential expatriate managers sent to those countries (Brewster & Bennett, 2010).

By way of limitations, our analysis is based on data from only one Cranet research round. Because of this cross-sectional design, we could not explore complex levels of convergence, but only similarities and differences between CEE region and EU, and between countries of the CEE region at the particular point in time. The extension of the analysis to include additional waves of data collection would allow a more detailed treatise of developments over time and an explication of the hypothesis on whether we are witnessing convergence between CEE and Western Europe in this domain area and in HRM policies and practices more broadly.

Disclosure statement

No potential conflict of interest was reported by the authors.

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