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EXECUTIVE REWARD SYSTEMS: A CROSS-NATIONAL COMPARISON*

JOHANNES M. PENNINGS

The Wharton School, University of Pennsylvania

ABSTRACT

This article examines executive compensation in the United States, France, and the Netherlands. A brief review of executive compensation literature is conducted to expose its implicit value systems. Next, a qualitative study examines the interpretive schemas that executives express about the pay-performance relationship; US-developed expectancy theory and agency theory serve as a benchmark. The results indicate that US executives understand compensation in different terms from those employed by their European counterparts.

INTRODUCTION

This article presents a first attempt to explore issues of executive compensation in a cross-cultural context. We review some pertinent literature, present findings from semi-structured interviews in several countries, and complement them with a quantitative comparison of incentive systems. The objective is to determine whether ideas and practices of executive compensation are culturally conditioned.

The reward system is one of the most prominent attributes of complex organizations. Numerous studies have examined its design, motivational significance and efficacy. Much of this research, however, has been conducted by industrial and organizational psychologists who focused on relatively low organizational levels (e.g. Lawler, 1976). Much of that research tradition may have little relevance for executive compensation systems, in which performance measurement is imperfect and vague, and pay-performance connections are tenuous (compare Brindisi, 1982; Larcker and Lambert, 1985; Murphy, 1985; Pennings and Bussard, 1989). We might call such reward systems 'strategic' in that their beneficiaries have a substantial impact on the long-term results of their firm (Pennings, 1991). There is far less literature on this topic; and except for a small amount of academic accounting research, it often appears heavily prescriptive. A good overview is provided by Ehrenberg and Milkovich (1988).

Address for reprints: Johannes M. Pennings, Department of Management, 2000 Steinberg Hall-Dietrich Hall, Philadelphia, PA 19104-6370, USA.

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Furthermore, much of the debate and research on compensation has had a distinctively US origin and may well reflect values or traditions that vary from those of other societies. Pay issues, for example, are a strong preoccupation in the US, both in the academic and the popular business press. The US business press (e.g. Business Week, 1989, and others) presents numerous ‘cover stories’ on the topic, and plays a strong role in cultivating corporate heroes, whereas overseas periodicals appear to shun such coverage.

In the academic press, similar patterns exist. Issues of executive compensation, widely studied in the US, seem to have attracted scant academic attention in other countries, such as France, Germany, or the Netherlands. In the academic literature, most of the pertinent findings have been generated by US researchers studying US executive compensation practices. Ironically, Becker (1985) reviews primarily US sources, perhaps because of a dearth of German and other non-US publications.

This article follows a two-pronged approach: first, we review literature that is gauged to be typical in its depiction of executive compensation, using US literature on compensation as our standard of comparison. Against a background of cross-national differences, we present findings from qualitative field research in different countries to uncover implicit or explicit notions among practitioners and executives. This inquiry represents a first step toward the development of a ‘grounded theory’ (Glaser and Strauss, 1967) about culturally conditioned compensation practices.

In short, we explore differences in reward systems and practices in relation to value disparities and indigenous traditions. Our focus is on such questions as: what interpretive schemas do people in different organizations espouse about performance-reward relationships, and do they signal national differences? Do such schemas mirror values that vary across nations? These dimensions of analysis lead to a more decisive statement on cross-national differences in compensation.

BACKGROUND

Compensation and Performance
Reward systems evoke a wide spectrum of reactions, and many organizations actively continue to experiment with them. Thus, not surprisingly, they have stimulated a large body of research. The review of dominant theoretical streams of work from psychologists and academic accounting researchers may reveal the underpinnings of executive compensation practices (compare Larcker and Lambert, 1985, and Lawler, 1976, respectively). The assumption is that beliefs, attitudes, and behaviour surrounding the remuneration of senior executives can be accessed as much by prevailing theories as they can from the content analysis of documents and personal interviews. Psychologists primarily employ some version of expectancy theory, while accounting researchers tend to espouse a neoclassical equivalent such as agency theory. Much of this research is American in origin and thus might be expected to mirror US values; a brief review should be helpful, however, in anchoring a sociology
of knowledge geared to examining certain manifestations of executive reward systems.

Simply stated, expectancy theorists examine rewards as motivators of performance. Agency theory considers how rewards can shift the risk from stockholders/owners to managers in such a way as to align the two parties' interests. A central difference is the tendency of the former to posit individual differences, while the latter invokes a microeconomic premise, treating individuals in a standardized fashion. Overall, however, both presume an 'atomistic' notion of organizations.

**Expectancy Theory**
Expectancy theory is a cognitive psychological variant of economic utility theory that presumes a propensity among individuals to maximize benefits and minimize costs. Crucial elements of the theory are the perceived relationships between effort and performance and between performance and rewards; rewards have motivational impact to the extent that they have high utility or 'valence' for the individual (Lawler, 1976). Expectancy theorists have examined group- and organization-based pay schemes (e.g. the so-called Scanlon profit-sharing plan), often with mixed results. Much of the relevant research has been conducted on lower-level employees. Yet executive compensation systems have been described (e.g. Lawler, 1983) within the tenets of expectancy theory and evaluated on their motivational efficacy. For example, do executives perceive the existence of a relationship between their performance levels and their compensation? If this correlation is high, and great remunerative or symbolic value is attributed to executive pay, executives will be motivated to higher performance levels (Lawler, 1983).

**Agency Theory**
Microeconomists, particularly those espousing agency theory (e.g. Jensen and Meckling, 1976) reject such caveats, assuming that compensation has a universal incentive effect on people’s behaviour and performance. Certain types of incentives are interpreted as aligning the owners’ interests with those of the firm’s executives. In the case of fixed compensation, such as ‘straight salary’, the executive is shielded from risk and is therefore able to pursue inappropriate strategies. Variable compensation, such as stock options, shifts part of the stockholders’ risk to the executives, creating the proverbial incestuous relationship between them.

Presumably, when owners’ and executives’ interests overlap through incentive systems such as stock options, ideal opportunities for executive control exist. Such overlap is desirable whenever the agent enjoys informational advantage over the principal. Rather than eliminating informational asymmetry (an option that is costly and rarely feasible), the incentive system is designed to render such asymmetry irrelevant. In this vein, the chairman of the board and his board of directors can guide the firm in a ‘cybernetic’ fashion by instituting incentives to entice their executives’ behaviour and performance toward certain targets.

Executive reward systems therefore often take the form of a contractual arrangement between the firm (or its board of directors) and its senior
management officers. Such officers often have a great deal of their remuneration at risk. While the overwhelming majority of employees in most organizations work under conditions of a fixed payout system, many senior executives have a certain portion of their income as a variable component. This component includes bonuses, stock options, performance share plans, and newer forms of ‘long-term incentive compensation plans’. This component in particular is central in the use of agency theory for explaining and describing executive compensation systems. Since contingent pay implies flexibility, it instils commensurate pay–performance expectancies.

Some Empirical Evidence
Several accounting researchers have tried to demonstrate that executive pay is strongly related to the accounting-based performance criteria of their firm (e.g. Murphy, 1985). Their efforts have been exemplary in approximating the cash value of an executive’s compensation. The empirical work of authors such as Murphy (1985) is testimony to their success. They seem to provide the best evidence that the tenets of expectancy and agency theory have some validity. Nonetheless, scepticism about executive reward systems remains, particularly on whether large components of variable pay induce certain behaviours or lead to higher performance levels (e.g. Ungson and Steers, 1984). This scepticism acquires extra weight when the debate is extended to other cultures. Unfortunately, pertinent research has been largely restricted to US firms, making the question difficult to deal with.

Performance might pertain not only to financial or other measurable outcome criteria, but also to more equivocal and imponderable aspects, even if these could be linked to financial measures. Langbert (1990), for example, in examining firm reputation, contrasted ‘excellent’ companies with ‘least admired’ ones according to whether they offered stock options. Excellent firms more frequently display such ‘ex post-performance’-based compensation, while the least admired ones have a greater preponderance of ‘ex ante’-based pay, such as profit-sharing, salary, and fringe benefits. Langbert’s research could probably not be carried out in Europe. Not only are ex ante-based pay systems infrequent and rarely studied, even ex post-based pay systems have not been examined extensively. The framing of such studies may be contingent upon a society’s having nurtured a social creed of ‘market justice’ (Lane, 1986).

CROSS-NATIONAL DIFFERENCES

Needless to say, these issues acquire extra significance when we consider executive reward systems in different societies. Organizations are institutions that exhibit the values and norms of their societies (Zucker, 1977). What others (e.g. Selznick, 1957) have called institutionalization is merely a statement about an organization’s quest for legitimacy that hinges on its environment’s expectations. In this vein, publicized executive compensation systems among US firms are symbolic messages that signify compliance with sound management practices and also communicate the contractual value of ‘One gets what one deserves’.
An intriguing question, consequently, is the extent to which managerial theories are culture-bounded, together with the possibility that those very theories describe, explain and legitimate extant practices in the very same countries. As we have seen, expectancy and agency theory have an American provenance, and although diffused to European countries, still can be seen as reflecting American world views (Hošťedé, 1983). In these theories, individuals are depicted as responsible for their own actions and in charge of their own achievements. Contractually, each person is bound to the employer, who is the 'principal'. The observation that heavy reliance on formalization and 'due process' is in accord with American traditions was made earlier by Hickson et al. (1974), and recently reaffirmed by d'Iribarne (1989).

Unfortunately, empirically tested social science theories about motivation, decision-making and organizational behaviour in other cultures have not yet been advanced. 'Do American theories apply abroad?' Hošťedé (1983) asks. He, among others, has argued that expectancy theory accentuates individualism and achievement values and should be construed as an expression of US culture, which may have limited validity or utility in other societies. The transfer of compensation practices predicated on expectancy theory or other motivational paradigms, from the US to other societies or vice versa, could therefore be of questionable value. Furthermore, not only may the US-biased literature convey a certain cultural outlook, but also American executives themselves may express views consistent with the tenets of expectancy and agency theories. We assume that the theories reviewed can be seen as a barometer of the thinking of today’s enlightened academic supporters of executive compensation as practiced in the US. Their counterparts in European countries may express different opinions and attitudes. This issue will be explored further here.

**Culture and its Consequences**

From these observations, a fairly clear picture emerges of the frame of reference expressed by organizational psychologists and academic accounting researchers in the US regarding compensation issues. Their frame of reference mirrors the values of the society into which they were socialized and could accordingly be contrasted with those of France and the Netherlands. In these societies there is virtually no academic literature on executive compensation and the various forms it takes. Naturally, this in itself points to the presence of culturally based differences. If European scholars understand compensation differently, they may not consider variable pay a relevant concept.

The long-standing debate on cross-cultural differences and their relevance, if any, for understanding organizational behaviour in general and compensation practices in particular, are still inconclusive. Recent research, however, is beginning to uncover the existence of pronounced cultural differences in value systems in different countries that might shed some light on differences in reward systems and the way they are used. The work of Hošťedé (1980) and d'Iribarne (1989) is particularly germane to these issues. These authors complement one another; Hošťedé provides a contemporary identification of value systems, while d'Iribarne develops a more historical perspective.
Hofstede's Study

An important study by Hofstede (1980) has identified strong variations in national cultures and their consequences. His study involved 50 countries, including the three that are the focus of the present article. From this massive survey on values, Hofstede constructed four cultural factors that vary cross-culturally. These include masculinity, individualism, uncertainty avoidance, and power distance.

A key finding for the present discussion is the 'masculinity' factor. In masculine cultures, traditionally defined gender roles are preponderant; men are expected to be assertive, ambitious and motivated by material success. In 'feminine' societies, in contrast, traditional stereotypical gender roles have become diffuse. In addition, there is a concern for the weak, underprivileged members of society and an emphasis on expressive, positive interpersonal relationships. Hofstede also showed northwestern European and North American societies to be relatively high on individualism and low on uncertainty avoidance (disinclination toward ambiguity, risk-taking and so on).

Another important implication for the present study pertains to power distance, which designates values accentuating authority and power differences. France, with its higher score on power distance, might rely on compensation differences as a means of further accentuating a person's position in a stratified society. Initial comparative investigations (e.g. Begue, 1976) showed France to have very unequal income distributions, which became amplified after tax, unlike in any other country. This condition is rapidly being altered, however. In the 1962–83 period, for example, France showed a dramatic decrease in the before-tax income gap between high-level executives (cadres supérieures) and employees. During this period income taxes became increasingly progressive, thus further eroding such income inequality (INSEE, 1982). These trends render France more similar to other EC countries. France also has a comparatively high uncertainty avoidance level, signalling an interesting paradoxical aspect of income and wealth distribution. This could imply that income should not be at risk. In other words, people want to anticipate their payout, regardless of performance or other income variation-producing factors beyond their control.

The consequences of such value differences are not trivial. Core values shape the importance that individuals attribute to various rewards, a fact that has powerful implications for what motivates them (Salancik and Pfeffer, 1977). Within the realm of expectancy theory, for example, the worth that individuals attribute to certain outcomes hinges on the values they espouse. For example, in masculine societies, achievement and self-actualization are salient. Major psychological theories of motivation, such as those of Vroom (1964) and Maslow (1970), in fact, posit such elements as central ingredients of an individual's motivational makeup. The French aversion for risk and uncertainty makes bonus and other compensation features that put some of its recipient's income in jeopardy unsuited to its motivational climate. Shifting some of the risk from owners/stockholders to managers would doubtless lead to complications the agency theorists do not foresee.

According to Hofstede, both expectancy theory and agency theory are culturally conditioned. Expectancy theory presumes individualism and mas-
Table I. Three countries’ values indices

<table>
<thead>
<tr>
<th></th>
<th>USA</th>
<th>France</th>
<th>Netherlands</th>
</tr>
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<tbody>
<tr>
<td>Power distance</td>
<td>40</td>
<td>68</td>
<td>38</td>
</tr>
<tr>
<td>Uncertainty avoidance</td>
<td>46</td>
<td>86</td>
<td>53</td>
</tr>
<tr>
<td>Individualism</td>
<td>91</td>
<td>71</td>
<td>14</td>
</tr>
<tr>
<td>Masculinity</td>
<td>62</td>
<td>43</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: Hofstede (1980)

culinity, while agency theory surmises a tolerance for uncertainty. One might add that other aspects of executive compensation, whether in the form of elaborate long-term incentive compensation systems or corporate perks, could likewise be culturally conditioned.

Table I presents the value indices as they are reported by Hofstede (1980). Compared with the United States, France and the Netherlands are rather feminine. France scores comparatively highly on power distance as well as uncertainty avoidance, which may induce its executives to shun firms in which their income is at risk. Masculinity is manifest in the desire for heroes – the glorification of individual success and achievement – which, when combined with low uncertainty avoidance, bodes well for American executives, who are strongly inclined to favour having a large proportion of variable compensation.

In general, in individualistic societies, one would expect a stronger tendency to define performance in individual terms, as well as widespread efforts to link personal success with individual compensation. Compensation differences are likely to be more pronounced among individuals, although they may be tempered by other values, most notably feminine ones.

In collectivistic and feminine societies, one would encounter relatively minor differences in compensation. This should be discernible in the compensation practices – for example, in decisions about the granting of bonuses. Strategic performance is more a group accomplishment than an individual one. In addition, there is a reluctance to stand out financially. In masculine societies, in contrast, where executives 'should get what they deserve', one might expect to see greater efforts to define success as a basis for pay.

The Ethos of Honour (d'Iribarne)

Recently, d'Iribarne (1989) published a study that is also highly pertinent to the arguments of this article. While Hofstede furnishes a cross-sectional description, d'Iribarne is more historical in his diagnostic description of management practices in three societies – incidentally, the identical ones to those examined here – France, the Netherlands and the US. Drawing heavily from historical analyses such as those of Alexis de Tocqueville, he tries to interpret the findings of a survey conducted on three industrial sites. The image that emerges shows how management in each of these countries has its unique strategy for limiting individual autonomy without inciting resistance and alienation.
D'Iribarne claims that the US is a society in which traditions, such as the Pilgrim Fathers' covenant, have contributed to formation of the employment relationship as an exchange relationship among equals, not unlike that between buyers and sellers in the marketplace. Employers and employees engage in a contract, with the latter supplying labour (or its marginal productivity) in exchange for a price; employees, in return, are entitled to a 'fair' or 'equitable' wage provided they contribute their part of the deal. Detailed, formal regulations spell out the conditions that govern such a contract, with grievance procedures in place to resolve disputes that were not anticipated at the time of contracting. D'Iribarne's portrayal of US industrial practices mirrors Jensen and Meckling's (1976) metaphor of organizations as a 'nexus of contracts', and is in accord with Hofstede's discovery that the US is heavily individualistic and masculine.

The Netherlands is governed by a system of consultation aimed at producing consensus. Not unlike Japanese practices, people in Dutch organizations spend a great deal of time in both formal and informal meetings, while every individual is expected to accommodate his position to the emerging consensus. A boss should confer with subordinates, explain the rationale for a command, and listen to objections or suggestions. This scenario accords with Hofstede's observation that the Netherlands are low on power distance and masculinity. Political scientists have arrived at identical conclusions (e.g. Lijphart, 1984). Dutch managerial behaviour is therefore dictated by shared understandings: since each group is fully aware of being part of the larger community, it is therefore willing to suppress parochial interests.

France exhibits yet a different set of folkways. Executives are not for sale. The various groups that make up an organization are part of a class, a professional group, or an estate. While each one is out to preserve its narrow stakes and maintain its position of power and privilege, it is also bound by a sense of duty and responsibility. Both laterally and vertically, people in organizations will insist on their traditional rights, guard their autonomy, and yet at the same time be devoted to the service of others. Crozier (1964) provides a vivid description of the interplay between production and maintenance workers in French tobacco plants. In the case of executives, the prototype of estate with its ethos of honour is dramatically illustrated by the 'Grand Corps'. This corps comprises a group of male graduates of leading French universities who have easy access to positions of power but also serve with dedication in these positions (compare also Suleiman, 1978). For d'Iribarne, this code of ethics, or what he calls 'logique d'honneur', negates the need for contracts or lengthy, consensus-producing meetings.

In spite of their difference in theoretical and empirical approaches, Hofstede and d'Iribarne show a fairly high degree of consistency. We can surmise that masculinity and individualism, which rank comparatively highly in the US, are consonant with employment contracts showing detailed stipulations about compensation and marginal productivity of labour. Consequently, US-style labour contracts would be meaningless in France and the Netherlands. In France, work motivation appears to derive very much from a code of ethics anchored in the privileged position of various occupational groups. One
might speculate that individuals embedded into any of these well-ingrained stratified groups manifest some form of collectively shared power distance values.

METHODOLOGY

We are now ready to present some preliminary findings on executive compensation in a comparative context. Qualitative data about executive compensation practices from a select set of US and European companies are compared. By analysing prevailing opinions among executives, we hope to arrive at cognitive scripts displaying an expectancy or agency paradigm, to extract implicit information about their value systems in general. Culture provides the premises for attitudes and beliefs (Eoyang, 1980), gives meaning to practices and conventions to which people are exposed, and furnishes a frame of reference for decision-making scripts and behavioural scenarios. The executives' verbatim statements are subsequently incorporated into a multinational framework and tested with a comparative data set.

Data collection through semistructured interviews was conducted during 1985-8 with executives in a small set of firms in each of the three countries. The interview questions examined the executives' interpretive schemes on the effort–performance and performance–pay contingencies, and explored the extent to which they felt their organization was capable of linking pay to performance. Fifty-one executives in twenty US firms, five executives in three French firms, and eleven executives in six Dutch firms shared their perceptions about these compensation issues. In each firm, compensation officers were used as informants to identify the presence of compensation plans and their associated practices; the compensation officers possessed background information on any historical developments within a company and could also provide an assessment of the effectiveness of various practices.

Firms were selected from a listing provided by a US executive compensation consulting firm. As clients, these firms are likely to be more concerned with compensation issues than are non-client firms. Some of them are private. Most of them belong to well-established, Fortune 500-type firms. They represent a variety of industries in the service sector, such as banking, publishing, telecommunication, and public utilities, as well as the manufacturing sector (electronics, steel, aluminum, food, aerospace, chemical, pharmaceutical, building products and paper).

The executives used as informants typically included a compensation director or human resources officer, an officer from the strategic planning department, and a few line executives. Rank among the latter varied from CEO to divisional and group vice president. An interview typically lasted for about 60 to 75 minutes. All interviews were taped and transcribed.

The issues that were addressed included the following:

1. The nature of the present executive reward system.
2. Perceived function of executive compensation plans.
3. Link between pay and strategic performance, if any.
4. Recent changes in compensation practices.
Published data, such as those from annual reports, proxy statements, and popular press articles on each firm were also collected.

RESULTS

The fieldwork sought to uncover interpretative schemas with the expectancy/agency theory as a base line. While much of the inquiry focused on cross-national differences, it should be emphasized that variations also existed in perception and attitudes within firms, and among various industries, mitigating against cultural differences, if any. The above four themes were scrutinized to expose the relative saliency of expectancy- or agency-like beliefs and opinions, and the presumed cultural values of which these paradigms may be indicative.

Nature of Present Compensation Plans

Of the three sets of firms, only the US set showed a widespread presence of long-term executive compensation plans. While all the US firms have an extensive formal executive compensation plan, however, some of them could be classified as not providing this variable (contingent compensation), as contingent pay is stable, predictable, and linked to salary level and is viewed as having no bearing on corporate performance. Indeed, in two cases (electronics and steel), the formula under which variable compensation was to be paid had been ‘adjusted’ in order to ensure a steady, continuous payout – even though the original, underlying performance clauses would not have justified such a reward. In the absence of long-term executive compensation in Europe, it became more meaningful to further review bonuses as a phenomenon that could vary within and between countries. The size of this payout in Dutch and French companies was rather small and uniform, ranging from 0 to 10 per cent, whereas among US firms sharp differences occur, with the bonus payments often exceeding the salary by several multiples.

With the exception of a trading firm turned conglomerate, all Dutch firms downplayed differences in executive compensation, granted insignificant bonuses (when a bonus is defined as a performance contingent pay-out), and rarely granted stock options. Fixed compensation and salary increases were seen as having little to do with accounting measures such as return on investment (ROI) or market indicators of corporate performance, such as ratio of market to book value. The most significant determinants were perceived to be the executive labour market and subjective evaluations by superiors.

Most French companies provided only fixed compensation. In fact, of the original French list of consulting clients, over 60 per cent did not pay any bonuses in 1987, and many from the remaining category were US-owned French subsidiaries. Recently, however, some exceptions have surfaced. Two French companies that had introduced more variable compensation elements in 1987 were selected to identify and analyse their unusual stance. Executives were more prepared to expect performance improvements as a result of greater uncertainty in compensation, although they were reticent about
hailing its efficacy. Interestingly, executives from these firms had been recruited mostly from the Grandes Ecoles — that is, elite universities such as the Ecole Polytechnique and the Ecole Nationale d’Administration — and appeared well entrenched in their old boys' network.

In contrast, the US firms showed results that ranged from the pattern of their Dutch counterparts to organizations with extraordinary variations in both fixed and variable compensation. Overall ROI and other accounting measures of performance were seen as most critical in shaping fixed and variable compensation; these measures are usually adjusted by norm-setting comparison with a peer group. The peer group is sometimes a set of competitors in the same market or a reference group of Fortune 500 firms; at other times, the comparison set is a mix of both, or a standard furnished by a compensation consulting firm. Among many US firms, there is also an aggressive use of bonus and long-term contingent pay systems.

Beliefs about Functions of Executive Compensation

Apart from the above descriptions of actual practices, it is interesting to present attitudes and beliefs about how or why executive compensation works. Expressed beliefs about the function of executive pay vary considerably among executives. Some of the quoted statements that follow may serve to highlight the functions attributed to pay.

A French compensation director stressed that executive pay is becoming more of an open issue that we can discuss during the last few years. Yet we should not brag about compensation as many people consider executive pay a private and secret matter. . . . It is scandalous [honteux] to have high earnings, which are seen as demotivating, anyway.

A Dutch executive employed by a food-related firm indicated likewise that money is not a factor in executive motivation. Senior managers are motivated by intrinsic factors such as challenge or professionalization. If the topic of pay variation is broached, executives are baffled:

Not the foggiest idea why you get a salary increase. Sometimes you receive a letter about something that went wrong. . . . We have a shared responsibility, the argument being that we are interdependent.

One of his superiors was further probed about pay policies and variable compensation in relation to performance. He appears very adamant about the inquiry:

We do not believe in it. Even profit-sharing payouts are fixed beforehand and can be found in the budget. We would not allow the polishing of results to boost a payout. Profits are due to a lot of factors, depreciation, setting of replacement value and so forth. . . . We differ from the U.S., where historical prices induce people to focus on short-term profits, so that their business becomes very cyclical. People cannot wait five, ten years before they get the

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results on the basis of which they are paid. . . . We let the people grow with the business. Their best reward is promotion.

This statement contrasts rather starkly with the attitude of a US colleague, also in a food-related industry. His firm’s CEO was often referred to as the Harold Geneen of the industry; divisional managers were evaluated and rewarded exclusively on the basis of profitability. (Harold Geneen, as CEO of ITT, presumably controlled all his divisions solely through a small accounting unit that monitored their return on assets; he treated his business executives in accordance with their bottom line.) The food executive evidently espoused an aggressive Harold Geneen credo. He appeared to be heavily preoccupied with pay and was eager to share his thoughts about the virtues of variable pay:

As far as the annual incentives, people know what the goals are. And down in the operating companies, most senior managers of the companies use those goals [net profit after taxes] on a regular basis to tell the people where they are going. Personal goals are based upon achieving that basic profit target. . . . Personal goals are then strategic activities which relate to achieving those goals. . . . You add the annual incentive and you bring people up to around the 75th [percentile] and although it is nice to have an umbrella, we are not afraid to be the highest paid executives, based on our plans. . . . [but also] we never change goals. If the British taxes doubled in a year and all the profits went to the government after the targets had been accepted, no adjustment of goals. . . .

Overall, executives from US firms express a strong belief in the motivational efficacy of executive compensation systems, whereas their French and Dutch counterparts tend to be cautious or even ignorant. The views of a Dutch multinational corporation executive are typical: ‘The relationship of accountability and bottom line and the internal organization is very complex. Our efforts and results are very indirect due to this complexity’. Moreover, a long lead time makes the action-result experience very tenuous. Executives, including the CEO, are motivated by a mixture of immaterial income, such as challenge, pride, freedom, resources, and so on. Such income also removes the need for contracting and fosters a collaborative atmosphere. A Dutch food and drink manufacturer does not even pay bonuses, since its CEO believes variable payouts to be counterproductive. One of that corporation’s executives specifically mentioned the ‘professional’ behaviour of managers and the psychological income they derive from having a responsible position.

In summary, bonuses and other forms of variable compensation presume flexibility in tying pay to performance. Since variable pay makes for a more immediate connection, individuals attribute a greater motivational effect to it, at least among US executives in several industries. Many European executives are more sceptical, either because they have little leverage in impacting corporate performance indices, or because an executive is motivated by many other factors. On closer inspection, it appears, however, that
their reaction is grounded in more than scepticism. They understand compensation as having a different function and a different relationship to performance than do American executives.

**Perceived Efficacy**

These quotations and observations have a distinct bearing on the perceived motivational efficacy of variable compensation payouts, which surface primarily in US and European firms that have recently undergone reorganizations in compensation practices. In a Dutch conglomerate, for example, an unusual aggressive reward system was instituted in 1986; and although the implementation could not yet be evaluated, executives in the firm were positive in their assessment of the intended effect. As much as 40 per cent of their total compensation could be variable—a huge proportion within the Dutch tradition, in which the range is customarily 0 to 10 per cent of salary. Of all executives surveyed, these were the only ones who believed that variable compensation has a positive impact on organizational performance. In France, a publishing house that had established a variable compensation package in 1987 was likewise optimistic about its beneficial impact.

A representative of a French biscuit firm, which had been acquired by a US multinational corporation and which also had become more assertive in creating financial differentiations in accordance with performance appraisals, expressed strong convictions about its imminent success: ‘The jury is still out there, but I do not have any doubt that this is the way to go’.

The view prevails in the US that variable compensation is sound practice. Yet, major deviations from the myth of market-like employment contracts were found among American executives in steel, aluminum, utility, and electronics firms. While the electronics organization was European-owned, the first three constituted older, blue-chip US corporations. They diverged not only from the Dutch conglomerate or French food manufacturer, but also from US conglomerates and food manufacturers. The initial conclusion was that differences in beliefs regarding executive compensation do surface, but that such beliefs are a function of corporate, industry, or market culture, rather than national culture.

The most explicit effort in relating strategic performance to compensation was found in an American defence and aerospace firm, in which executives received a score card on the creativity and the soundness of their strategic thinking as these qualities manifested in their business plan and their presentation before an executive committee. Over 30 criteria were used to determine pay-relevant strategic and operational performance. Other US firms employing far less complicated algorithms were nevertheless equally aggressive. They referred, for example, to the futility of mentioning excuses for having failed to meet long-term strategic performance targets and avowed their willingness to increase the proportion of variable compensation to nearly 100 per cent. Corporate or divisional success here translates into personal success and becomes attributed to personal effort and skill. The compensation package is presumed to mirror this conception and likewise serves to confirm its validity to the incumbent and his peers.
The Link Between Pay and Strategic Performance

The motivational efficacy of variable compensation is obviously related to the notion that, in reality, effort can be tied to performance. If the link is transparent, compensation can be seen as a carrot-and-stick situation. Executives would not be motivated to make decisions should they perceive their performance-derived outcomes to be minimal or even absent.

In the US, the strongest doubts about effort–performance were expressed by executives in so-called non-discretionary industries, that is, industries with a strong dependence on business cycles, and low R&D and advertising intensity. The assumption is that when an industry shows little or no expenditures in R&D or advertising, its firms do not enjoy much latitude in expanding supply and demand of products or services. Mining and other commodity-type producers are good examples. A steel executive compared himself with executives of an Ohio petroleum company who enjoyed a windfall in 1973, not because of their business acumen, but because of the Arab oil embargo and the subsequent cartel-induced price hikes. For him, such an anecdote is evidence of the futility of individual executives in making a dent in their firm’s performance; it is, rather, a belief in luck and chance (Rotter, 1966). In contrast, in a food company, the belief was widespread that any executive can make a difference, even when confronted with an act of God: even though such acts cannot always be anticipated, their effects most certainly could be forestalled or buffered by an executive’s decisions. When executives in these firms were told about their colleagues in a steel firm, they dismissed such comments outright, pointing out, ‘Entrepreneurs sometimes enjoy windfalls, too’. When French and Dutch executives were probed about incidental efforts to introduce variable compensation, however, they tended to dismiss such acts as American faddishness or misguided moves to restore competitiveness.

Changes in Executive Compensation

Both in France and in the Netherlands, compensation officers discern a slow but steady trend toward de-levelling. The term ‘de-levelling’ refers to the reintroduction of and re-emphasis on wage and salary differentials as a way to recognize variations in talent, responsibility, and above all, performance. Levelling was perceived to be widespread in the 1970s, when society was said to have valued a far-reaching degree of egalitarianism. As one Dutch Labour Party politician indicated, ‘The CEO should not earn more than twice what the janitor makes’. The quest to restore income stratification is not always smooth. It also shows that many people in the US have the inclination to associate variable pay with high levels of pay—a link not always borne out by the facts.

One officer, however, laments that in his company, managers do not always have the guts to say he is 0, you are 100%... It happens all too often that we are more generous than frugal. The salary committee has the nickname Santa Claus Committee.

While bonuses are modest, his company does issue what is called one-time

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bonuses for exceptional performance; these, too, however, are constrained by
guidelines set by the salary committee. One implication of level compensation
is the absence of conflict and strife in compensation matters, relegating any
dispute to the presence of those extraneous guidelines. This is in accord with
the observations made by d'Iribarne (1989, pp. 230–2).

Consistent with the perceived de-levelling, one diversified firm has aggres-
sively modified the compensation system by reducing each executive's salary
by 35 per cent, with the presumption that each of them is expected to
counteract this diminution in fixed income by increasing their variable
income. After a period of extensive acquisitions, in 1988 a new profit-sharing
concept was introduced with implications for individual compensation:

We made individual contracts with every business unit manager. He in
turn draws up contracts with his managers, to be approved by the board.
The idea is to filter 'spot-contracting' down all the way to the shop floor,
although the proportion variable is not as high in this country.

A publishing firm in France is likewise experimenting with a new plan, but
the results of its implementation are still too tenuous to be evaluated. Its
compensation officer believes strongly that 'we have to go the American way
to keep Europe competitive'.

Ironically, while all respondents can be assumed to maintain a positive
attitude toward compensation innovations, several compensation officers
express a critical opinion. An executive from a Dutch consumer durables firm
(food, tobacco, etc.) views experiments such as those in the French examples
as *eendagsvlug*, or faddish. He doubts whether Europe will follow US practices
'where historical financial performance induces people to focus on short-term'
profitability. He also questions the use of stock options.

Stock prices are not affected by strategic initiatives. I do not even know the
current value of our stock! It is meaningless for the executive who is
interested in the long-term health of the firm. Retained earnings is the way
to grow. Stock options enrich the free riders and the tax man. It is not going
to work; our president has a long-term view of the company and prefers to
stay away from the stock market gyrations.

This firm pays a fixed bonus of approximately 10 per cent, payable at the
end of the calendar year. The company's culture would resist more pro-
nounced pay differentials; it would jeopardize the prevailing consensus and
camaraderie among the team of executives. As one executive put it:

There is interdependence in performance, some have an 'easier' job than
others, but foremost, pay differences would create jealousy. Moreover,
three-fourths of pay increases goes to taxes, so why bother?

In short, this firm's executives are strongly sceptical about imminent changes
in executive compensation practices in Europe. The views about changes –
whether positive or negative – have not yet been tested in a way that permits a fair assessment of their benefits.

Retreat from Variable Compensation
In the US, some interesting retreats from the earlier euphoria about variable executive compensation are discernible. In fact, in the 1980s, a flood of technical innovations emerged that related an executive’s compensation to performance on the basis of a complex formula comparing a firm’s internal rate of return to the market cost of capital. These advanced formulas often proved counterproductive. A manufacturer of paper products dropped its long-term executive compensation plan in 1989, since the only executive who understood its underpinnings was the treasurer, who has an MBA in finance, and ‘even he had to do a lot of homework’. The CEO told us that the firm had gone back to square one, which he defined as straight bonuses and some stock options, with performance comparison based on the traditional peer comparison companies. In no way, however, does such a change signal a retreat from recognizing the individual achievements of executives. Such plans were initially construed as an innovation to draw an executive’s attention away from short-term (or ‘quarterly’) time horizons in favour of a more long-term focus. Apparently, the long-term focus renders ethereal the connection between performance and expected compensation, particularly when the algorithm linking the two is complex and tenuous.

DISCUSSION AND CONCLUSION
This article has presented a first attempt to explain differences in executive reward systems as at least partially a function of cross-cultural differences. Differences in executive compensation appear significant and are arguably a function of cultural factors suggested by Hofstede (1980). These factors include individualism and masculinity values in the US, France, and the Netherlands, while also reflecting variations in traditions, such as those that define employees and employers as equal parties who are expected to abide by a contract. The findings present an addition to the body of knowledge that has emerged around the work of Hofstede, while also lending further credibility to the findings of d’Iribarne.

These authors assist in driving home an important point, often overlooked by academic researchers. Adherents of expectancy and agency theory rarely make reference to basic premises or assumptions inherent in their explanations. If one shifts the attention to another society, then one becomes aware of what these assumptions are. If we move to the French or Dutch context we cannot frame those assumptions, as these do not exist in the minds of their people. Indigenous assumptions instead are, respectively, about the role of class or estate-based civic responsibility in France or about co-operative teamwork in the Netherlands. Moreover, Hofstede (1983) has likewise convincingly demonstrated that paradigms about human behaviour are culturally conditioned. Discussion of agency theory in these countries is ill-fitting.
or even irrelevant. Political justice rather than market justice (Lane, 1986) appears to be the motto here!

The results are limited in their generalizability, but clearly indicate that executive reward systems are more explicit, widely diffused, and prominently displayed in US firms. Executives express stronger beliefs in the feasibility of tying pay to strategic performance, although such opinions are occasionally tempered, particularly in industries that seem sensitive to business cycles, and whose technology is well established or whose products have limited room for differentiation. It should be noted, however, that all US firms have an explicit executive compensation system, while most French and Dutch firms do not. Many Dutch executives express doubt about pay as an antecedent of executive or corporate performance. Some of their firms are nevertheless experimenting with modest attempts to institute bonuses to entice executives toward higher performance levels. It will be interesting to see whether these experiments will reinforce our scepticism, or whether they will suffer a demise not unlike that of other American skill-transfers as management by objectives (e.g. d'Iribarne, 1989; Hofstede, 1983).

It is interesting to note that these findings are consistent with a parallel study that compared bonus as a percentage of executive pay among the three countries. Data on over 200 firms came from the same US executive compensation consulting firm. Bonus payments are small in Europe and show little variance, compared with those of the US. Summary stepwise regression results are listed in table II. Firm size, industry (i.e. a dummy variable for sectors), and nationality (i.e. a dummy variable for France, the US and the Netherlands), and the interaction between industry and nationality had a major effect on the dependent variable. It was found that bonus payments in the US are much bigger and more variable, although this tendency is more pronounced in some industries, most notably, in the food and electronics industries. The interaction coefficient was not significant because the multiplicative term involving two dummy variables entailed a large number of degrees of freedom. The results of table II are highly congruent with the qualitative findings, offering still another indication that executive compensation is culturally conditioned.

Obviously, many more cross-national investigations are called for. These should include those who have values that are even more divergent, most notably Japan and China (compare Beatty et al. 1988). For example, in Japan, even more than in European countries, seniority and long-term attachment to the firm are the basis of merit. Salary increases in Japan are less likely to vary sharply, particularly when compared with US samples (Bass and Burger, 1979). Such results resemble those involving Dutch and other European samples of executives (e.g. Hoekstra and Wilke, 1972; Ryterband and Thiagarajan, 1968). Japan, however, is much more collectivistic than France or the Netherlands, scoring 33 points below France, which is the least individualistic of the three countries. The meaning of perks as recognition of loyalty and attachment to the organization in Japan, rather than measures to counteract heavy and regressive taxation, is a plausible explanation (The Economist, 1987).

Such observations acquire even more significance in the wake of increased
globalization both of societies and the firms based in their cultural milieu. This increased significance inheres not only in multinational mergers and acquisitions, but also in steep increases in foreign investments and joint ventures. International activities have converted numerous firms into so-called multinational corporations with establishments in two or more countries. Such trends lead to the employment of locals by foreign-owned firms, the transfer of individuals across national boundaries, and the concomitant need to design executive reward systems that are compatible with both the firm’s compensation practices and the cultural traditions of the host country. Multinational firms face interesting challenges in balancing such factors when designing or implementing their compensation systems. Similar issues can be raised for executive compensation firms that establish a global network of agencies. They, too, face the need to match their activities to the cultural idiosyncrasies of their clients’ national origin.

NOTE

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