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## Exploring the gap in compensation strategy and practice between Croatia and EU countries

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### Abstract

*Globalization has challenged companies to increase their competitiveness in different aspects of their business but has also led to convergence in different fields. Compensation has been advocated as a tool for enhancing organizational performance and sustained competitiveness. Compensation strategy determines reward systems but also the direction in which reward management innovations and developments should go to support the business strategy. This paper analyzed possible gap in compensation strategy and practice between Croatia and EU countries. Findings suggest that Croatian companies offer variable compensation at an average rate similar to the EU 28 average. When specific features of variable compensation are explored we show that Croatian companies offer variable compensation that is below EU average with respect to group based incentive payments, performance based pay (performance appraisals), profit sharing and employee share ownership plans.*

Keywords: compensation strategy, variable pay, profit sharing, ESOP, Croatia

### 1. Introduction

Since the 1980's compensation management, or reward management, an organized organizational practice that involves balancing the employer-employee relation by providing monetary and non-monetary compensation to employees for their time and effort started to gain importance (Milkovich & Newman, 2008; Martocchio, 2006). The compensation function is today a key component of human resource (HR) systems whose primary purpose is to establish practices that would contribute to companies' competitive advantage (Martocchio, 2006). HR and reward functions are thus being challenged to take an increasingly strategic role in helping their businesses navigate through ongoing economic uncertainty by ensuring that labor costs are managed and that maximum return on investment is delivered. Although the terms compensation and reward are used interchangeably, we need to emphasize the difference among the two: whilst reward system includes anything that an employee may value and desire and that the employer is able or willing to offer in exchange for employee contribution, compensation system results from the allocation, conversion and transfer of a portion of the income of an organization to its employees for their monetary and in-kind claims on goods and services (Henderson, 2006). A more pragmatic explanation of the difference among the two would be that compensation is a US based term, unlike rewards that are more often used among European researchers.

Compensation is a key element of the employment relationship and, in addition to being the single greatest operating cost for many organizations, it has been advocated as a tool for enhancing organizational performance and sustained competitiveness. Due to high impact of compensation management on overall firm performance (Stajkovic & Luthans, 2001; Hansen, 1997, Jenkins et al. 1998), we recognized the need to research it in detail within Croatian companies. Furthermore, since Croatia entered the European Union (EU), Croatian companies constitute just a part of the larger EU market in which mobility and free movement of persons is guaranteed. In such context compensation management strategies and practices used by Croatian companies are challenged to be competitive within the larger EU context. An implication to this basic EU principle of mobility and free movement is that all countries and companies have access to candidates from the common labour market (European Commission, 2014). The competition among Croatian and European companies for best human resources is about to start, where current negative net migration with other countries in 2013 (-4.884%; Croatian Bureau of Statistics, 2014) is discouraging for Croatian companies and we find necessary to examine the state of compensation practice in Croatia, due to compensation's roles in employment relationship.

This paper and research is aimed at making comparative research of Croatian and EU countries' compensation strategies and practices in order to develop knowledge on the topic, all with the purpose of developing compensation strategies that would allow Croatian companies to increase their relative competitiveness and reduce excessive employee drain to foreign labour markets.

## **2. The importance of compensation strategy**

In order to develop competitive advantage in today's global economy, the compensation program of the organization must support strategic plans and actions of the organization. As a part of human resource strategies organizations thus develop reward strategies whose primary intent is to support fulfillment of business strategy. Reward strategy clarifies what the organization wants to do in the longer term to develop and implement reward policies, practices and processes that will further the achievement of its business goals. Reward strategy thus determines reward systems but also the direction in which reward management innovations and developments should go to support the business strategy, how they should be integrated, the priority that should be given to initiatives and the pace at which they should be implemented (Armstrong & Murlis, 2004; Armstrong & Stephens, 2005:25). Although reward strategies cover similar aspects of reward, they will be treated differently in accordance with variations between organizations in their contexts, business strategies and cultures (Armstrong, 2010). Reward strategy should bring the organization to the achievement of organization's strategic objectives, established by organizational vision, mission and business strategy.

Reward strategies differ among organizations due to organization-specific factors. Reward strategy consists of unique blend of all aspects of rewards – valuing roles, the design of grade and pay structures, contingent pay, non-financial recognition and pensions and benefits, including flexible benefits (Armstrong, 2010). Since goals in organizations are seldom shared by all members, the same applies to compensation decisions. Although compensation strategy flows from business strategy, the compensation system should serve various stakeholders: employees, line managers, executives, unions and government (Martocchio, 2006) and in order to do so these

parties impact the final compensation strategy. Compensation professionals should be able to determine which objectives are the most important for their particular workforce: pay and benefits or advancement. Line managers take part in making compensation judgments, so they should be trained to make reasonable compensations judgments. Executives develop and manage compensation system and should be able to implement the system that will attract and retain top talent employees. Unions protect best interests of their members in the processes of collective bargaining, whereas governments require that all companies comply with legislation (Martocchio, 2006).

Milkovich (1988) was the first to provide a systematic review of compensation strategy literature and his work emphasized top three issues within the topic: compensation policies and practices differ widely between organizations and between employee groups within organizations, second, this differences indicate that managers have the discretion to choose from multiple compensation policies. Finally, making compensation policies and practices contingent on organizational and environmental conditions has some desired effects on employee behaviors and the performance of organizations.

Balkin & Gomez-Mejia (1990) identified strategic compensation dimensions, where this 15 items have remain to serve as an indicator of compensation strategies. Alternative view is based on the presence and rate of use of variable compensation as the key dimension of compensation strategy (e.g. Balkin & Gomez-Mejia, 1987). Thus incentive pay can be an indicator of applied compensation strategy. Besides these, there is also the notion of level of compensation (how much employees are paid in all forms) and structure differentials (according to Gerhart, 2000) as an overall indicator of compensation strategy.

**Table 1: Strategic pay choices**

<b>Basis for pay</b>	
Job	Skills
Membership	Performance
Individual performance	Aggregate performance
Short-term orientation	Long-term orientation
Risk aversion	Risk taking
Corporate performance	Division performance
Internal equity	External equity
Hierarchy	Egalitarian
Qualitative performance measures	Quantitative performance measures
<b>Design Issues</b>	
Above-market salary and benefits	Below market salary and benefits
Emphasis on salary and benefits	Emphasis on incentives
Infrequent rewards	Frequent rewards
Emphasis on intrinsic rewards	Emphasis on extrinsic rewards
<b>Administrative framework</b>	
Centralized	Decentralized
Pay secrecy	Pay openness
Managers make pay decisions	Employees participate in pay decisions
Bureaucratic	Flexible

Source: Adapted from Balkin & Gomez-Mejia (1990), Gomez-Mejia (1992: 390)

As argued by Balkin and Gomez-Mejia (1987); the ultimate dependent variable when making strategic pay choices is organizational performance. Research on the specific question of how the fit between pay and strategy influences business performance is often taking into account only executive compensation, whereas performance consequences of general compensation strategy remains relatively under researched (e.g. Balkin & Gomez Mejjia, 1987; Gomez Mejjia, 1992), despite several studies on fit between business strategy and pay strategy (e.g. Boyd & Salamin, 2001). Interestingly, research on the effect of compensation strategy on firm performance shows inconsistency results: part of such researches did not find signs of relationship among compensation and performance (Gomez-Mejia, 1992, Bloom & Milkovich, 1998) whilst others support such claim (Balkin & Gomez-Mejia, 1990; Allen & Helms, 2001).

In addition to its importance in influencing the goals and behaviors of current organization members, compensation has other important influences (Gerhart, 2000). First, it plays a major role in the attraction and retention of organization members, and thus shapes the composition of human capital. Second, compensation decisions have a major influence on overall costs.

### **3. The global convergence of compensation strategies and practices**

Compensation strategies and practices, as an integral part of human resource management (HRM) strategies and systems, have been approached to from different research streams. Four distinct perspectives, however, have been identified in the literature but all of them, as Brewster (1999) emphasizes, stem from one of the two fundamental research paradigms – either the *universalist* or the *contextual* paradigm. The former has received a lot of support in the USA (Nikandrou et al., 2005), which can be considered as „a cradle“ of research on the Taylorist one-best way of doing things. As oppose to the universalist paradigm, the alternative, *contextual* paradigm takes into account different contexts that HRM, and therefore compensation strategies as well, can be embedded into (Brewster, 1999).

Contrary to the universalistic paradigm of HRM in the USA, the European paradigm has been based on the assumption that several contextual factors can contribute to a distinctive form of HRM in Europe. Those factors can be economic, technological, political, social, cultural, or ideological. In the contextual paradigm these factors are seen as aspects of the subject rather than external influences on it. The focus is on understanding what is different between and within HRM in various contexts (Nikandrou et al., 2005). Generally speaking, variations in HR practices are mainly due to the different employment/labor laws and the national cultures and the organizational context of the company (Sanchez Marin, 2008, in Gomez-Mejia & Werner). As a result, in the EU countries HR can be many different things on a continuum from personnel administration to very strategic HR and people management (Claus, 2003).

The European form of HRM, most probably affected by those various contexts – ideological, political, social and so forth – in which it is operating, is characterized by internal variation among various clusters of countries and, at the same time, by external uniformity compared to the rest of the world (Larsen & Brewster, 2000; Mayrhofer et al., 2000). Indeed, the European Union has had implications in countries' legislation, economy and market forces that have developed a dynamic towards convergence. However, although it provides a unified context within which organizations operate, at the same time, it allows for differences at the national and/or organizational level, due to cultural and institutional factors (Sanchez Marin, 2008, in Gomez-

Mejia & Werner). Consequently, the European form of HRM may be considered as an outcome of a complex interaction of many of the above-mentioned factors (Nikandrou et al., 2005).

Several authors claim that even though countries within Europe can be rather distinctive from each other in the management of their human resources, one can distinguish three different models of HRM: the Latin Model, the Northern European/Nordic Model and the Anglo-Irish Model of HRM (Brewster & Tyson, 1991; Brewster et al., 1993). Ignjatovic and Svetlik (2003) have also conducted one of the comparative studies focused on similarities and differences among European countries on HRM. Using 51 indicators from Cranet data, they grouped 24 European countries into four distinctive clusters having different HRM strategies and practices and position of HRM in organizations. They also identified four different HRM models, namely, the Central Southern cluster with the management supportive model; the Eastern cluster with the management focused model; the Nordic cluster with the employees focused model; and the Western cluster with the professional model.

Most recently, the research on “High performance working practices (HPWP)” clusters conducted by Ferreira (2012) showed that there is not a single bundle that reflects one “system” of work and HR practices. Cluster analysis revealed 3 clusters and the distribution of countries by clusters shows a distinct geographical pattern: South-West Europe, South-Eastern Europe and Northern Europe, the latter being more close to the High-Performance paradigm. On the contrary, the Southern regions are far from that model, although South-Western region show some relevance of “job enrichment”, while South-Eastern region gives some importance to “communication practices”.

Although evidence of divergence among HRM practices throughout Europe is abundant (Claus, 2003), there are also some signs of convergence as a result of globalization (Fay, 2008, in Gomez-Mejia & Werner), the American influence, and the impact of the EU (Fenton-O’Creedy, 2001, in Claus, 2003). The research made by Nikandrou et al (2005), on the other hand, did not reveal any indication of convergence between the major clusters – north-west and south-east. They did, however, observed movement from one cluster to another, or more precisely, peripheral countries in one cluster moved to the other cluster. The major question for the present research is whether there is a possibility of converging the current HRM practices in the cluster where Croatia is nested to a cluster that would resemble more to the one characterized by HRM practices that can increase organizational performance. Management of compensation practices in the sphere of global business is subject to the same adaptation conditions and requirements as other areas of HRM and maybe even more so since decisions on compensation have special impacts on employees and arouse greater social and even political sensitivity (Gomez-Mejia & Welbourne, 1991).

With respect to reward strategies, since the mid-1980s there has been a noticeable trend towards worldwide convergence in reward strategies, which has been dominated by the United States. In Europe this influence was first observable in the United Kingdom and later continued its march eastwards and southwards (Kressler, 2003). As Kressler argues, a significant characteristic of North American reward strategy is the high proportion of short and long-term incentives. In Europe the emphasis on incentives has recently grown to a remarkable degree, although it has not reached the same extent as in the United States, for there are hardly any notable long-term

incentive strategies. Share systems are used more as a mark of esteem and to emphasize the feeling of togetherness, and less as a direct incentive system.

#### **4. Comparative analysis of compensation strategy and practice between Croatia and EU**

Comparable information on EU compensation strategies and practices that would be based on common methodology is fairly limited. However, there are some regular researches conducted by the European Commission that provide a valid insight into the topic.

Compensation levels vary greatly depending upon country specific contexts such as national culture, laws, labor unions, market forces or profitability (Martocchio, 2006, Dumond et al., 1999), still the overall level of compensation is an important feature of compensation strategy (Gerhart, 2000). Eurostat's Structure of Earnings Survey (SES), that provides comparable information at EU level on individual earnings, last performed in 2010, has shown that median gross hourly earnings vary by a factor of 1 to 17 across the EU (max Denmark: EUR 25.0, min Bulgaria: EUR 1.50) with Croatians earning on average 4.8 EUR gross hourly, which is 2.48 times lower than the EU-27 average median gross hourly earnings (Eurostat, 2014). As shown in Table 2, average annual earnings of EU citizens range from 9.861 EUR in Turkey, up to 45.280 EUR in Belgium, and moderate 12.377 EUR in Croatia. This suggests that, in considering available approaches to investing in people through rewards and incentive payments, international managers operating across Europe in the future need to be aware of, and adapt their actions to, a blend of supranational, national and local environments.

**Table 2: Structure of earnings survey: annual earnings**

GEO/TIME	2002	2006	2010
European Union (28 countries)	:	29.506	31.131
Euro area (18 countries)	:	31.697	34.841
Belgium	:	38.125	45.280
Bulgaria	1.862	2.606	4.686
Czech Republic	7.174	9.781	12.283
Denmark	:	47.637	55.939
Germany (until 1990 former territory of the FRG)	:	39.396	41.495
Estonia	:	8.148	10.585
Ireland	35.450	42.876	44.146
Greece	:	26.933	26.106
Spain	21.792	24.262	27.975
France	:	32.493	34.927
Croatia	:	:	12.377
Italy	:	30.560	32.751
Cyprus	:	24.486	27.342
Latvia	:	5.839	8.526
Lithuania	4.099	5.716	7.226
Luxembourg	:	47.016	51.643
Hungary	5.873	8.115	9.879
Malta	:	17.654	19.656
Netherlands	37.003	38.998	44.965
Austria	:	37.049	40.514
Poland	6.878	8.574	10.312
Portugal	:	16.597	18.507
Romania	2.344	4.223	6.139
Slovenia	12.560	15.809	21.162
Slovakia	5.506	6.771	10.321
Finland	:	34.345	39.635
Sweden	31.388	34.197	36.470
United Kingdom	41.102	44.377	38.470
Iceland	:	:	29.312
Norway	:	50.440	56.816
Switzerland	:	:	64.026
Former Yugoslav Republic of Macedonia, the	:	:	5.824
Turkey	:	8.405	9.861

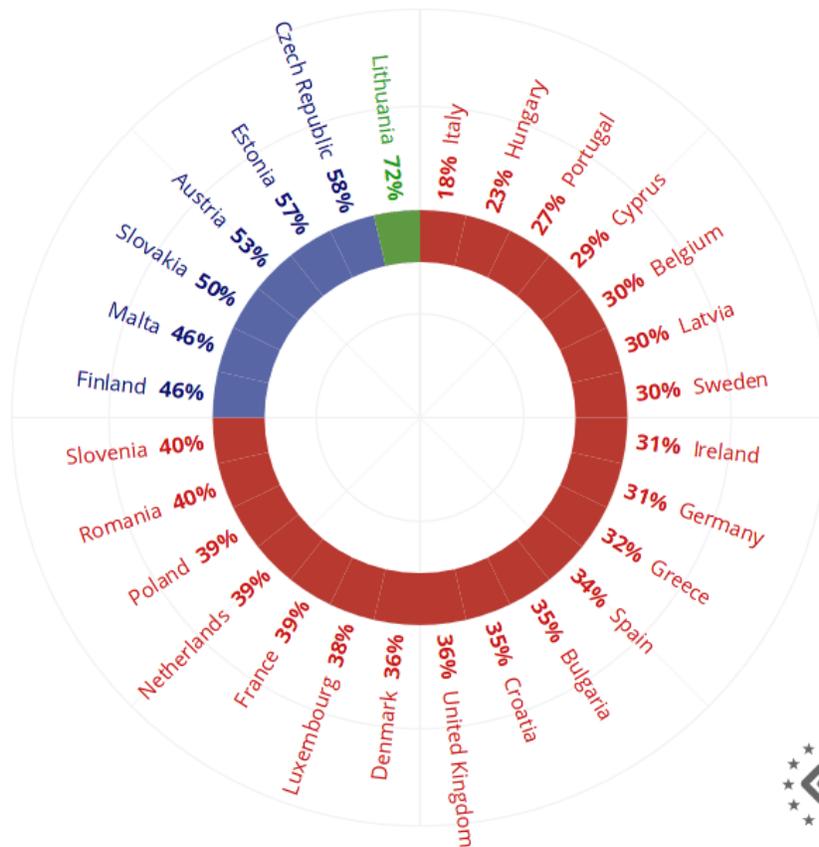
[http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn\\_ses\\_annual&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_ses_annual&lang=en)

Earnings data, as shown in Table 2, can be a potential drawback for countries that offer below average earnings since this might cause brain drain to high earning countries. Kressler (2003) argues that the significant differences in the level of reward that still exist between individual countries will gradually be levelled out as a consequence of growing mobility in a shrinking economic world, and that it is already occurring with senior management positions. However,

even in the situation of limited financial resources compensation strategies and systems might be optimized in a way to ensure fulfilment of business strategy by retaining top talent and achieving maximum firm efficiency.

Incentive-based payments have been considered as the core element of compensation strategies by Balkin & Gomez-Mejia (1987) thus we will base our exploration of compensation strategies across EU on this very indicator. The most extensive EU based study that assesses and quantifies information on company policies and practices across Europe on a harmonized basis is European Company Survey (ECS). Amongst others, it provides comparative data on trends in variable compensation for all member countries. The European Company Survey (ECS) has been carried out every four years since 2004. Reliable source of comparative data with respect to compensation practices is second ECS performed in 2009 since Croatia did not take part in 2004 round, and detailed results for third ECS research conducted in 2013 are still not available.

**Figure 1: Variable pay used for at least some employees within the EU countries**



Source: European Company Survey 2009

Figure 1 depicts the rate of use for variable pay (at least for some employees within the organization) among EU member states. It shows that countries can be divided into three groups: low usage of variable pay that includes Croatia, moderate use of variable pay (e.g. FI, MT, SK, AT, EE, CZ) and Lithuania with the highest usage of variable pay within their compensation

systems. These two clusters of countries, in case Lithuania is treated as an outlier, do not fit with recognized models of reward management (Brewster & Tyson, 1991; Brewster et al., 1993; Ignjatovic & Svetlik, 2003), but do indicate large differences in the rate of adoption of variable compensation. Features of variable compensation, such as group based pay, performance appraisal and performance based pay, profit sharing and ESOP were further explored. Results of this research are shown in Table 3. Since the decreasing rate of usage has been used to position countries within the table, it clearly shows that Croatian companies adopted all explored features of variable compensation at a lower rate as compared to majority of other EU countries.

Table 3: Indicators exploring aspect of variable compensation for EU 28 member states

Rate of use (% of examined companies)							
Country Code	Group based pay	Country Code	Performance appraisal	Country Code	Profit sharing	Country Code	ESOP
EE	49.1	CZ	74.3	SI	55.4	LT	12.8
SI	47.9	SI	72.5	LT	53.1	FI	12.5
LT	47.6	LT	67.2	SK	53.1	LU	12
BG	41.3	AT	56.4	FI	50.8	SE	9.2
SK	40.1	SK	55.2	CZ	50.5	UK	8.6
PL	39.7	PL	54.6	AT	45.8	FR	8.1
CZ	36.3	EE	53.6	EE	41.8	EE	7.9
FI	33.6	DK	53.4	FR	40.9	SI	7.8
LV	31.8	LV	48.4	SE	37.6	NL	7.3
RO	29.2	NL	47.8	DK	35.2	AT	6.6
LU	28.8	RO	45.3	PL	34.3	IE	6.5
AT	27.5	FI	44.5	NL	34.2	CY	6
FR	26.3	DE	44.2	BG	33.9	DK	5.8
PT	25.3	MT	43.4	RO	31.7	BE	4.9
UK	25.1	LU	42.7	DE	30	ES	4.7
DK	24.6	UK	41	LU	28.8	BG	4.5
NL	24.2	HR	40.3	UK	26.1	CZ	4.4
MT	23.6	BG	39.7	ES	25.1	PL	3.6
SE	23.5	FR	39.7	IE	23.6	PT	3.4
ES	23.2	EL	39.3	LV	22.9	HR	3.3
IE	22.6	IE	37.8	CY	21.7	DE	3.2
EL	20.7	CY	36.9	PT	21.4	IT	2.8
HR	20.3	SE	36.5	BE	19.9	SK	2.7
DE	18.8	IT	35.2	HR	19.3	HU	2.3
BE	17.7	ES	35.1	IT	17.6	EL	2.2
IT	17.5	PT	34.7	EL	17.2	RO	2.2
CY	16.5	HU	34.3	HU	16.4	LV	1.2
HU	15.2	BE	31.6	MT	13.1	MT	0.2

Table 3 indicates that according to ECS 2009 research 40.3% of Croatian companies implement performance appraisal and performance based pay as a part of their reward strategies. This is most used feature, since only 20.3% of examined companies use group based pay, profit sharing has been considered by 19.3% of examined companies and ESOP by only 3.3% of all examined companies.

The overall comparison of variable compensation among Croatia and average indicators for EU member states has been provided in Table 4. In general terms, some 35.2% of Croatian companies offer variable compensation to at least some employees which is close to the EU 28 average. However, when specific features of variable compensation are explored, Croatian companies offer variable compensation that is below EU average with respect to group based incentive payments, performance based pay (performance appraisals), profit sharing and employee share ownership plans.

**Table 4: Summary of ECS 2009: Comparison among Croatia and EU**

<b>Indicator</b>	<b>EU average</b>	<b>Croatia average</b>
Payment by results available to at least some employees in establishment	<b>34.4%</b>	<b>35.2%</b>
Variable extra pay linked to the performance of the team, working group or department	<b>25%</b>	<b>20.3%</b>
Variable extra pay linked to the individual performance following management appraisal	<b>42.8%</b>	<b>40.3%</b>
Variable extra pay linked to the results of the company or establishment (profit sharing scheme)	<b>30.2%</b>	<b>19.3%</b>
Variable extra pay in form of share ownership scheme	<b>5.4%</b>	<b>3.3%</b>

More recently, third ECS was performed in 2013 and current results are still preliminary and summary. Data collected in 2013 indicate new trends, since a steep increase in the usage of variable compensation has been found - as almost two-thirds (63%) of EU establishments used some kind of variable pay in 2013, as compared to 34.4% in 2009. The most common form of variable pay is extra pay linked to individual performance, followed by payment on the basis of results: piece rates, and extra pay linked to company performance, to team performance and through share ownership. Variable pay is more prevalent in large and medium-sized establishments (84% and 78% respectively) than small ones (60%). Similar differences between size classes are found for all types of variable pay (Eurofound, 2013).

Another valid comparative research in the field of compensation management was conducted by Načinović et al. (2012) based on CRANET methodology. It sought to explore differences in different compensation management aspects, and represents the first comprehensive research of this type in Croatia. The aim of the study was to analyze the differences and patterns of convergence-divergence between Croatian companies and EU countries, but separately for older (EU-15) and newer EU members. The summary of the research results is shown in Table 5.

The research conducted by Načinović et al. (2012) revealed that 71.4% of Croatian companies use performance appraisal to differentiate the employees for the pay purposes, thus being the basis for variable pay.

Financial participation schemes explored in the same study were share plans, options and profit sharing. The data indicated that share plans among private sector firms in Croatia converge to those of the old EU countries. Similar pattern was found with respect to share options. Options are used by 26.83% of Croatian firms in the private sector whereas comparable average for old EU countries amounts to 21%, and 13% for new EU countries. Profit-sharing was the only financial participation scheme in Croatia that revealed a higher similarity to new EU countries.

With regard to performance related pay measured consisting of flexible benefits, performance related pay and bonus based on individual/group goals, several patterns were found among different firms in private and semi-public sector. Flexible benefits and bonuses based on individual goals had similar rate of adoption among old and new EU countries, but in both cases Croatian average was lower than the EU countries'. However, the rate of adoption for performance related pay in Croatia was higher than both of these. Flexible benefits were not found to be a common compensation category in Croatia, since only 16% of examined firms offered this type of compensation to employees (and it was lower than in the all new EU countries).

**Table 5. Research summary of the study on convergence-divergence patterns between Croatian and EU compensation practices conducted in 2012**

<i>Compensation dimension</i>	<i>Key findings</i>
<b>Performance appraisal</b>	<ul style="list-style-type: none"> <li>71.4% of Croatian companies use <b>performance appraisal</b> to differentiate the employees for the pay purposes, thus being the basis for variable pay</li> </ul>
<b>Financial participation schemes:</b> share plans, options, profit sharing	<ul style="list-style-type: none"> <li>Share plans among private sector firms in Croatia converge to those of the old EU countries.</li> <li>Similar pattern is found with respect to share options.</li> <li>Profit-sharing is the only financial participation scheme in Croatia that shows a higher similarity to new EU countries.</li> </ul>
<b>Performance related pay measured:</b> flexible benefits, performance related pay and bonus based on individual/group goals	<ul style="list-style-type: none"> <li>Flexible benefits and bonus based on individual goals have similar rate of adoption among old and new EU countries, but in both cases Croatian average is lower than the EU countries'.</li> <li>Performance related pay is, on average, more often found in Croatia than in EU countries.</li> </ul>
<b>Pay determination</b>	<ul style="list-style-type: none"> <li>Do not fully converge to either old or new EU countries</li> </ul>
<b>Non-statutory benefits</b>	<ul style="list-style-type: none"> <li>Croatia does not show a full pattern of convergence to either of these groups of countries</li> </ul>
<b>Non-monetary reward strategy</b>	<ul style="list-style-type: none"> <li>Job enlargement is most often used non-monetary reward strategy in Croatian companies</li> </ul>

Based on: Načinović, Klindžić & Marić (2012), Comparative Analysis of Reward Management Practice among Old and New EU Member States with Special Emphasis to Croatia. *World Congress of the International Federation of Scholarly Associations of Management* / Morley, Michael J. (ur.). Limerick : Kemmy Business School

Results obtained for pay determination in Croatian firms by Načinović et al. (2012) research do not fully converge to either old or new EU countries. With respect to individual bargaining, the proportion of firms in Croatia that used it as a pay determination level for operational personnel

was almost equal to old EU countries average (approx. 18%). Additionally, with respect to national or regional bargaining the proportion of firms in Croatia adopting it (57.58%) was closer to old EU countries' proportion (50.25%).

With respect to non-statutory benefits, Croatia did not show a full pattern of convergence to either of these groups of countries. Namely, the study revealed that some benefits converged to old EU countries' average while some other types of benefits converged more to the new EU countries. For example, with respect to workplace childcare, pension schemes and educational/training break the proportion of firms in Croatia using it was closer to new EU countries. Career break schemes and maternity leave are types of benefits where the average proportion of companies using it was similar in Croatia and old EU countries. There were also some benefits where Croatian firms, according to the results of the study conducted in 2012, diverged from averages in both old and new EU countries, these being parental leave and private health care. As much as 97.3% of examined Croatian firms had reported at the time to offer parental leave in excess of statutory requirements. Private health care is another benefit used more in Croatia than in both old and new EU countries (used by 63.89% of examined firms).

As for the non-monetary or non-material reward strategies applied in Croatian companies, job enlargement was predominantly used non-monetary reward strategy followed by job enrichment. This pattern was not, however, compared to the averages of both old and new EU countries, so more in-depth research is needed in the area of total reward system.

## **5. Discussion and conclusions**

The increasing pace of globalization is increasing the need for organizations to develop effective compensation programs that will enable them to attract, retain and motivate employees of different profiles. More specifically, globalization of reward strategies represents what can be described as Americanization (Kressler, 2003) since countries partly withdraw from the traditional reward structures of their countries and adopt 'Western world' approach, namely those practices that arose in the USA. This trend has been especially visible among CEE countries whose compensation was traditionally based on egalitarian approach and as a result of new trends in the last two decades moved to extensively using performance based, variable compensation.

Every component of the pay package is expected to trigger or direct certain behavior, however, variable component in compensation is shown to be the key indicator of reward strategies due to its effects of employee behaviours and subsequently performance. Payment by results available to at least some employees in the establishment has been used as a general indicator of variable reward.

**Table 6: Summary of comparison compensation strategy Croatia - EU**

<b>Research</b>	<b>Methodology</b>	<b>Main findings</b>
European Company Survey (ECS)	Population EU countries and candidate countries, questionnaire-based representative sample survey carried out by telephone. The companies to be interviewed were selected at random among those with 10 or more employees in each country. The survey is undertaken approximately every four years.	In general, Croatian companies offer variable compensation at a similar rate as to EU 28 average, but differences exist when compared to individual countries. Croatia severely lags to EU average with respect to the use of profit sharing.
CRANET	Comparative researches on the policies and practices of human resource management in more than 30 countries, both some EU and non-EU by using a standardized questionnaire. Includes organizations that employ more than 250 employees (Croatian sample). The survey is undertaken approximately every four years.	Performance related pay is, on average, more often found in Croatia than in EU countries. Croatia does not show a full pattern of convergence to either new or old EU countries

There were several compensation data sources that were processed in order to report correctly on the gap among compensation strategy and practice between Croatia and EU. Consolidating these multiple sources into one single data feed (Table 6) reveals that the size of this gap differs depending upon the compensation component. Furthermore, as shown in previous tables, the size of the gap depends upon the individual countries that Croatia is compared to.

The purpose of this paper was to perform a critical evaluation of compensation strategies and practices used by Croatian companies with respect to EU practices, and support it with some empirical data. We showed that there is a very clear gap in the EUR annual earnings of Croatian employees as compared to average annual earnings for EU countries. Since EU promotes workforce mobility, such statistics can be a sign of threat for Croatian companies. Net migration flow with other countries is already showing negative results so we find necessary to examine the state of compensation strategy and practice in Croatia, due to compensation's roles in employment relationship. Total annual earnings depend indirectly upon numerous factors determined on the macroeconomic level, and are not solely under firm control unlike compensation strategy. In this context, compensation strategy and policy can be used as a source of competitiveness.

With respect to the status of compensation strategy, our secondary data sources show a common trend, although empirical data on comparable categories differ. For example, as a key indicator of employed compensation strategy, we used the information of variable compensation. Variable compensation can be found in different forms, whereas one of such aspects is based on performance appraisals. CRANET research showed that performance appraisal is used by as much as 71.4% of examined Croatian companies, as compared to 40.3% of examined companies found by ECS research. We believe that ECS finding is more relevant and descriptive of national practice.

Both researches tackle the issue of profit sharing. CRANET research found that rate of use for profit sharing in Croatia shows a similarity to the use in the new EU countries. ECS findings show an opposite situation, in fact results show that that profit sharing shows the highest rate of use of more than 50% of all examined companies among old EU countries (e.g. SI, SK, CZ), and Croatia shows a poor usage of this compensation component. The two researches can be compared with respect to the usage of share option plans as well. CRANET research indicated that the rate of use of share plans among private sector firms in converge to those of the old EU countries. ECS research showed a generally poor usage of this compensation component among EU countries, where in most old EU countries it is used by less than 5% of all examined companies.

The comparison of compensation strategy and practice among Croatian and EU companies was started with the premise that there is a difference, certain gap, among compensation strategies adopted in Croatia and those applied among EU countries. Our research results indicate that although such gap really exists it is not as wide when compared to the indicators describing average status of compensation practices throughout all EU countries. Based on all data presented throughout this paper, we can identify three critical points that define the gap among compensation strategy and practice among Croatia and EU: first, the average annual earnings in EUR in Croatia are described as low when compared with EU average. This finding is a true reason for overall dissatisfaction with compensation strategy and practice found among Croatian employees. The second reason for the dissatisfaction with overall compensation strategies is possibly a lack of employee involvement in compensation setting processes that consequently causes lack of transparency in compensation. Although such an assumption was not explored as a part of this research and can not be empirically supported, by knowing details of compensation practice in Croatia, we generally recognize that employees are not considered a key stakeholder when developing a compensation strategy. Employers do not recognize the importance of compensation communication thus employees often find themselves uninformed about the details of the compensation policy and strategy, and how can they earn different components of the compensation package. We suggest that such an assumption about Croatian compensation practice should have empirical verification. Thirdly, our results indicate that variable pay in Croatia is used almost at a similar rate as EU average. However, we suggest that this finding should be additionally explored. We question the methods of implementation of variable compensation in Croatia; we would like to confirm that variable compensation in Croatia is based on objective criteria, in order to be able to serve as an incentive for performance.

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