

Changes in remuneration and reward systems

Executive summary

Introduction

Pay is the foundation of the relationship between employer and employee, influencing job satisfaction, quality of work and standard of living. In addition to base pay, companies have been using supplementary employee reward systems increasingly to reward performance and motivate employees. These systems include performance-related pay, salaries in kind, supplementary social security contributions and financial participation schemes such as profit-sharing.

This report examines the extent of these schemes in the EU Member States and Norway. It describes their characteristics and evolution, how they are regulated by legislation or collective agreements, and the views of social partners.

Policy context

The European Union has very little regulatory competence in the field of pay; its role is limited to combating discrimination and promoting equal pay for equal work. However, because of their effects on growth and employment, wage developments are a matter of common concern for the EU Member States and are closely monitored in the framework of the employment and economic policy coordination process embedded in the Europe 2020 strategy.

According to the Annual Growth Survey for 2016, 'wage-setting frameworks, including collective agreements, should allow a certain degree of flexibility for differentiated wage increases across and within sectors, so that real wages and productivity developments are properly aligned over time. In this context, it is important that workers' representation is well ensured and that there is effective coordination of bargaining across the various levels.' A number of country-specific recommendations issued in the framework of the European Semester reflect these objectives, with a view to improving the functioning

of the labour market and promoting job creation in an equitable and sustainable manner, while respecting the autonomy of collective bargaining.

Moreover, the European Employment Strategy and the Europe 2020 strategy set priorities to improve the quality of jobs and ensure better working conditions. Increasing employee participation in company financial results and offering better rewards could help to meet these goals.

The European Commission's Communication of 12 December 2012 set out an action plan for European company law and corporate governance that suggested a framework for more engaged shareholders and sustainable companies.

Key findings

According to the data from the 2013 European Company Survey (ECS), 62% of European establishments use some form of variable pay. The most common type is pay linked to individual performance and assessed by management appraisal (43%), followed by payment by results (34%), profit-sharing (30%) and pay linked to group performance (25%). Share-ownership schemes are used by 5% of establishments.

National data confirm frequent use of variable performance-related pay forms in most countries, representing between 5% and 10% of total salary levels, although data are patchy, and there are marked differences across countries. Wages and salaries in kind are also common in most Member States, while financial participation schemes (with the exception of profit-sharing) are less common.

The use of supplementary reward systems varies greatly according to company characteristics. These systems are more prevalent in the private sector than

in the public sector (with some national exceptions) as well as in certain economic sectors, particularly information and communications technology, finance and insurance, and consultancy. Larger companies are more likely to use these systems than small and medium-sized enterprises, and they are also more common in foreign-capital or multinational companies and in companies located in economically central or advanced regions.

Differences also exist according to workers' characteristics. Thus, men tend to benefit from these systems more than women, as do middle-aged groups compared with younger and older employees. Bonuses, salaries in kind and social benefits are more common among managers, executives, professionals and technicians than among workers lower in the occupational structure.

There is limited information on the relationship between supplementary reward systems and working conditions. Generally speaking, supplementary pay is more common in companies that foster their employees' involvement in decision-making and job autonomy and in companies that pay higher salaries. In some cases, employees do not see supplementary rewards as an advantage, especially when fixed wages are low.

The prevalence of supplementary reward systems has increased in recent decades, in terms of both the number of companies using them and the number of employees covered. For employers, they are a source of flexibility, a tool to strengthen motivation and a way to connect pay with business performance. Many countries offer incentives to introduce these systems in the form of tax rebates or social security deductions. The recent economic crisis, however, had a negative impact on the use of supplementary rewards, as companies have tried to reduce labour costs and governments have reduced the tax or social security advantages that they entail.

Supplementary reward systems are regulated by a combination of employment law, tax provisions and collective agreements. Terms and conditions in national labour codes or laws tend to set general parameters about pay but not necessarily about supplementary reward systems. The scope of regulations varies between countries. Some countries specify regulations for reward systems in the public sector, while others set clear limits on payments in kind, and others have no specific regulations relating

to supplementary rewards. Recent changes to national legislation have sought to establish a stronger control of bonus payments in the financial sector.

Policy pointers

The use and presence of supplementary employee reward systems is likely to increase in the future, especially in a context of economic recovery and particularly in the private sector. Employers generally consider that performance-based reward schemes increase employees' motivation and identification with the company and encourage entrepreneurial behaviour. They also offer greater flexibility in managing labour costs and can be used to increase equity capital. Tax advantages and limited social security contributions are an added incentive.

Trade unions generally have positive opinions about supplementary employee reward systems, but they also state that if these systems are not properly designed, they can lead to inequalities as well as income instability. Variable pay systems are sometimes seen as a way to assert managerial control in a context of lower fixed wages and high unemployment. Unions also argue that, although performance can be a legitimate reason for differences in pay, the systems that assess performance must be robust and transparent. Unions have also pointed out that certain fringe benefits are not calculated or are calculated at a lower amount for social security contributions, which could affect future entitlement to sickness, unemployment or retirement benefits.

Even where trade unions are open to linking wages and productivity (as in some EU countries that have been particularly affected by the crisis), they emphasise that decent basic salaries should be guaranteed.

The power balance between the social partners (including union density and collective bargaining coverage) and the use of public incentives (for example, tax rebates) both have a key role to play in making these forms of payment more attractive to both employers and employees.

Public policymakers designing social security schemes, taxes and employee financial participation options need to be aware of the regulatory frameworks used in different countries, as well as the advantages and limitations of different practices so that they can opt for schemes that best suit the national situation.

Further information

The report *Changes in remuneration and reward systems* is available at <http://www.eurofound.europa.eu/publications>.

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