

Changes in remuneration and reward systems



Changes in remuneration and reward systems

When citing this report, please use the following wording:

Eurofound (2016), *Changes in remuneration and reward systems*, Publications Office of the European Union, Luxembourg.

Authors: Antonio Corral, Jessica Duran and Inigo Isusii (IKEI Research); Karel Fric, Stavroula Demetriades and Christine Aumayr-Pintar (Eurofound)

Research manager: Stavroula Demetriades

The authors acknowledge the help of Mitchell Bremermann for the literature review.

Luxembourg: Publications Office of the European Union, 2016

Print: ISBN: 978-92-897-1546-1 doi:10.2806/116188 TJ-04-16-534-EN-C
Web: ISBN: 978-92-897-1545-4 doi:10.2806/355994 TJ-04-16-534-EN-N

The European Foundation for the Improvement of Living and Working Conditions (Eurofound) is a tripartite European Union Agency, whose role is to provide knowledge in the area of social and work-related policies. Eurofound was established in 1975 by Council Regulation (EEC) No. 1365/75, to contribute to the planning and design of better living and working conditions in Europe.

© European Foundation for the Improvement of Living and Working Conditions, 2016

For rights of translation or reproduction, applications should be made to the Director, European Foundation for the Improvement of Living and Working Conditions, Wyattville Road, Loughlinstown, D18 KP65, Ireland.

European Foundation for the Improvement of Living and Working Conditions
Telephone (+353 1) 204 31 00
Email: information@eurofound.europa.eu
Web: www.eurofound.europa.eu

Europe Direct is a service to help you find answers to your questions about the European Union.

Freephone number (*):

00 800 6 7 8 9 10 11

(*): Certain mobile telephone operators do not allow access to 00 800 numbers or these calls may be billed.

Contents

Executive summary	1
Introduction	5
1. Background and literature review	13
2. ECS 2013: Variable forms of pay	17
3. Comparative analysis of remuneration and reward systems	25
Part A: Extent and evolution of supplementary reward systems	25
Part B: Regulatory framework	38
Part C: Collective agreements and views of social partners	47
4. Conclusions	55
References	59
Annex: Latent class analysis of ECS data on variable pay	63

Country codes

28 EU Member States

AT	Austria	FI	Finland	MT	Malta
BE	Belgium	FR	France	NL	Netherlands
BG	Bulgaria	HR	Croatia	PL	Poland
CY	Cyprus	HU	Hungary	PT	Portugal
CZ	Czech Republic	IE	Ireland	RO	Romania
DE	Germany	IT	Italy	SE	Sweden
DK	Denmark	LT	Lithuania	SI	Slovenia
EE	Estonia	LU	Luxembourg	SK	Slovakia
EL	Greece	LV	Latvia	UK	United Kingdom
ES	Spain				

Other

NO Norway

Note: This report contains hyperlinks to sources. These can be accessed by downloading a PDF version of the report from the Eurofound website (www.eurofound.europa.eu/publications), which contains live hyperlinks.

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 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.

Introduction

Pay, or remuneration, is the foundation of the relationship between employer and employee. The level of pay, to a great extent, influences employees' job satisfaction, quality of work and standard of living. For employers, pay is the most significant part of labour costs and, in general, accounts for a significant proportion of the price of goods and services.

Remuneration comprises all the monetary compensations that employees receive for their work. The typical form of remuneration is a base pay for standard hours worked (for instance, a salary of €x per month or €y per hour for a 30-hour week). Employers usually pay extra for working unsocial hours (for example, night shifts and weekends), for working longer hours (overtime rates) and for working in especially difficult conditions (for example, supplements for risks, noise or handling heavy loads). These additional payments usually result from the obligations of collective agreements or laws. In addition to these 'traditional' forms of pay, enterprises have for some time been introducing what this report will refer to as 'supplementary employee reward systems', intended to reward performance and motivate employees. These systems are the main focus of this report.

Reasons for using supplementary reward systems

There are several reasons why employers and employees may see supplementary employee reward systems as an attractive alternative to fixed monetary pay systems.

Source of flexibility for employers

From the perspective of employers, variable performance-related pay (PRP) and monetary or non-monetary benefits can provide more flexibility in remuneration than fixed pay. They can help foster strong business performance by **linking employee rewards to business objectives** and, incidentally, shifting part of the business risk and pressures to workers. These motivations are confirmed by several national studies. In France, bonuses and other forms of financial participation are used to compensate for moderation in basic wage rates (Delahaie and Duhautois, 2013). In Ireland, variable reward initiatives (for example, profit-sharing) can **facilitate an added flexibility for enterprises** by linking incomes to changing economic circumstances and possible 'external shocks'. In Latvia, variable pay is often used as a tool to provide reimbursement for **work in undertakings that do not have stable financial flows** and that cannot provide regular full wage payments. A Portuguese study mentions that bonuses are used by enterprises as part of a strategy to reduce fixed costs and compensate for extended salary freezes, especially in difficult financial times (Duarte et al, 2007). This rationale is also suggested by **Romanian studies**. Similarly, **non-consolidated bonus practices** have been used in the UK public administration to compensate employees in the context of an overall pay freeze.

Tool to attract and retain key personnel

Equally important for employers is that such reward forms can be used as a powerful tool to attract and retain employees (especially those most useful for the company) and to enhance their image as an attractive employer. This is particularly the case in highly competitive labour markets and in work environments characterised by large volumes of work and pressure to reach productivity targets. There is much national evidence in this respect. In Cyprus, financial participation schemes such as **stock options are used** to retain key executive professionals and managers in the banking sector. In Finland, when employers were asked their reason for adopting such remuneration systems, 88% said it was the possibility to reward outstanding employees. This was well above the 29% who said they used them to add flexibility to wages and workforce expenses.

An Italian study stresses that giving **in-kind (or non-monetary) benefits** to employees increases employee loyalty, reduces absenteeism and improves the working climate, while tackling pressures exacerbated by the economic crisis. In Latvia, the main reasons enterprises gave for offering additional benefits relate both to the motivation of employees and to the retention of stable, highly qualified, experienced, trustworthy and motivated employees (RS Group, 2006). In Norway, 63% of companies stated that the main reason for paying salaries in kind was to **recruit and retain employees**.

It is not clear that these forms of remuneration can incentivise all types of workers (Hammermann, 2013). For instance, employees whose motivation is largely intrinsic might not be reached at all or might even become demotivated by existing rewards, while employees whose motivation is extrinsic might be attracted or incentivised to work ‘only’ for the money and neglect other features of the job, such as quality of work or teamwork. It is an open question whether the type of reward or the choices available to employees about these reward schemes may also influence the motivation of workers.

Other reasons suggested by employers

Enterprises might be persuaded to use these forms of remuneration for reasons other than employee motivation. In France, for instance, national legislation obliges enterprises to adopt some type of supplementary reward (Delahaie and Duhautois, 2013). A Swedish survey found that 63% of the respondent financial companies were going to reform their remuneration systems due to new regulations (PWC, 2014). Also, some types of supplementary reward enjoy better tax treatment for enterprises in some countries (Duarte et al, 2007). National regulations of supplementary rewards are outlined in Chapter 3 of this report.

Employees’ views

Employees usually welcome these forms of remuneration, although empirical evidence highlights certain nuances in their views. In Lithuania, **many employees prefer extra pay or monetary bonuses** to in-kind benefits as a motivating tool. In particular, monetary rewards are preferred by Latvian **male workers with mid-level education and income**, whereas in-kind benefits are more valued by people with higher income and higher levels of education. In Portugal, employees generally support the use of in-kind benefits, provided they are granted in a fair manner (Carnaz, 2010). Another Portuguese study stresses that the employee’s perception of justice, control and transparency of the variable pay system has a positive impact on their motivation, which in turn affects their engagement (Morais, 2013). Tax burdens for non-monetary benefits are often much lower (or even absent) compared with the tax treatment of monetary pay, an element that, according to Norwegian enterprises, employees also appreciate (Statistics Norway, 2013).

Barriers to introduction

Notwithstanding the drivers for the introduction of these forms of remuneration, there are a number of barriers. To begin with, companies involved in these schemes have to be in **good economic shape**, as often these variable forms take into account the annual results of the enterprise. A Croatian study suggests that in some **sectors with a particularly tough economic environment** (such as textile and leather production or construction), there is almost no possibility for the introduction of variable pay and remuneration as enterprises in these sectors have problems even with the payment of base pay.

Other barriers can also be identified. A UK report for the Office of Manpower Economics discusses the **legal challenges of discretionary payment schemes and bonus systems** under UK discrimination law, stressing that although performance can be a legitimate reason for differences in pay, the systems by which it is assessed should be robust. An Italian study highlights the opposition from some social partners (especially from workers’ representative organisations), as these types of pay can increase inequalities between workers, entail the risk of income instability, and are often subject to subjective evaluations from superiors (CNEL-ISTAT, 2013). This issue is examined extensively in Chapter 3 of this report.

PRP schemes are not always considered an advantage by employees; sometimes, they are perceived either as difficult to obtain due to unrealistic goals or as a source of stress at work. This is especially the case in workplaces with low fixed wages, for instance for salespeople paid partly or mainly on commission, or in the case of **countries such as Lithuania**. Excesses in the use of reward schemes in recent years for certain groups (for example, bonuses for top managers in the banking sector) have resulted in important legislative changes aimed at reducing unnecessary risk-taking and short-term approaches. See Chapter 3 of this report for details of recent national legislative changes.

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.

Objectives of this report

This report describes and characterises the extent and regulation of supplementary employee reward systems in the EU Member States and Norway. Specifically, the report’s objectives are to:

- provide an overview of the use of variable forms of pay in the EU Member States;
- present facts and figures on the incidence of supplementary employee reward systems in Member States and Norway and their evolution since the economic crisis, and to present a longer-term perspective;
- provide information about how supplementary employee reward systems are regulated, through legislation or collective agreements, in the different European countries and about recent changes in the regulations;
- examine the degree of integration of these supplementary employee reward systems into collective agreements and to look at the stance of the main national social partners on this issue.

Research questions

An increasing number of establishments use variable forms of pay. The European Company Survey (ECS) 2013 reports that 6 out of 10 EU private sector establishments use at least some kind of variable pay for at least some of their staff.

A large body of research on variable forms of pay has developed over the past few years. Despite plentiful research, there is still a need for evidence about the characteristics of these forms of pay and their regulation at national level. This report seeks to answer the following questions.

- What is the incidence of new forms of remuneration?

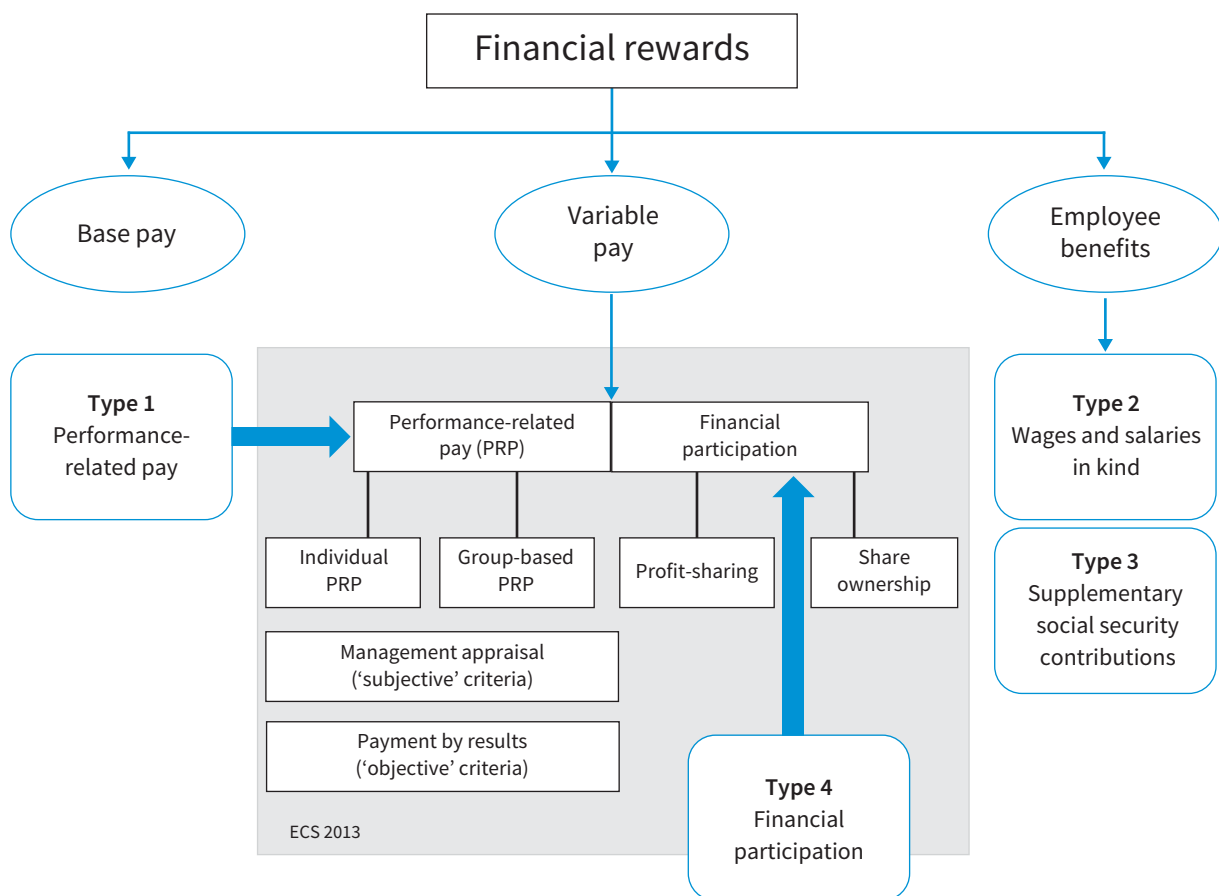
- What are the characteristics of establishments using these new forms of remuneration?
- Which new types of remuneration are emerging in the EU Member States?
- How are these forms of remuneration regulated through legislation and collective bargaining?

Definitions

This report refers both to variable pay and supplementary employee reward systems. Chapter 2, which is based on ECS 2013 data, looks at **variable pay**, defined as a general term that refers to different components of pay that supplement basic pay and which vary over time in their amount. It distinguishes between performance-related pay (PRP) and financial participation.

- PRP is linked to the performance of an individual or a group of workers. It can take the form of payment by results, where results are easy to observe and measure (such as a completed sale, number of contracts signed or number of units assembled). It can be linked to individual performance following management assessment or to group or team performance.
- Financial participation is linked to the success of the company as a whole. Two broad forms are distinguished here: profit-sharing schemes, which allocate a share of a company’s profits to employees; and employee share-ownership schemes, which grant shares to employees as part of their remuneration.

Figure 1: Overview of definitions applied in this report



Source: Authors' elaboration

Chapter 3, which is based on the national reports from Eurofound’s network of European correspondents, focuses on **supplementary employee reward systems**, a broader concept than variable pay, as shown in Figure 1. Supplementary employee reward systems are schemes set up by companies to reward performance and motivate individuals or groups of employees or both that are additional to base pay. They may be monetary or in-kind but have a cost to the company in either case. Through these reward systems, employees receive extra pay components that are not necessarily paid out regularly and that can be variable and dependent on other factors. The types of remuneration relevant to this report are summarised in Table 1.

Table 1: Types of remuneration relevant for this report

Nature of remuneration	Monetary	Non-monetary
Fixed	No	Yes
Variable	Yes*	Yes

* With the exception of circumstances where variable pay depends on extraordinary workloads or events, unsocial hours, long hours or especially difficult working conditions. These are considered traditional systems of remuneration.

Types of supplementary reward systems

Four types of supplementary reward systems are considered in Chapter 3.

Type 1: Variable performance-related pay

Different measures of performance can be applied, for example, in relation to the returns of a company or department, the level of output or sales achieved by individuals or teams. Payments related to performance in these areas can take a monetary or non-monetary form. They do not include systems where the variable pay relates to elements such as extraordinary workloads or events, unsocial hours, long hours or especially difficult conditions: these are considered traditional payment systems. Table 2 presents some national examples of PRP schemes.

Table 2: National examples of variable PRP

Country	Variable PRP schemes
Austria	<i>Treueprämie</i> (long-service bonus)
	<i>Urlaubsgeld/Weihnachtsgeld</i> (13th and 14th month salary,* based on collective agreements, not obligatory by law, anniversary bonus)
	<i>Prämien</i> (incentive pay)
	<i>Akkordlohn</i> (pay for piecework)
Denmark	<i>Præstationsfremmende lønsystemer</i> (performance pay)
	<i>Resultatløn</i> (payment by results)
	<i>PlusLøn</i> (Plus Pay – a system built on four elements: basic pay, pay by qualification, pay by function and payment by results; the latter is dependent on results achieved either by individuals or groups)
Finland	<i>Tulospalkkio</i> (variable PRP based on economic or other objectives achieved)
	<i>Työeläkelakipalvelu</i> (variable PRP based on individual performance)
	<i>Tulospalkkio ja bonus</i> (variable PRP based on group performance)
France	<i>Intéressement</i> (collective PRP)
Germany	<i>Bonuszahlungen/Boni</i> (bonuses paid for individual or team performance or for targets achieved)
Italy	<i>Premi di risultato</i> (productivity bonuses)
Poland	<i>Zakładowy Fundusz Świadczeń Socjalnych (ZFŚS)</i> (the Company Social Benefits Fund, established in companies employing at least 20 full-time workers in order to provide workers, especially the lower-paid, with some benefits such as a holiday pay)
Portugal	<i>Prémios</i> (amounts paid to employees for different reasons, such as performance, productivity, attendance and length of service)
	<i>Retribuição mista</i> (mixed remuneration: wages comprising both fixed and variable components)
Spain	<i>Salario variable</i> (variable salary, dependent on results or performance)
	<i>Pagos extraordinarios variables</i> (variable extraordinary payments, including incentives and payments linked to individual or company results)
UK	Payment by results (payment determined by objective criteria, such as the amount of work done or its value)
	Merit pay (pay related to subjective assessment of performance by a supervisor or manager)

*13th and 14th month salaries are bonus payments equivalent to a month’s salary, usually paid half-way through or at the end of the year. Source: *Authors’ elaboration based on national reports*

Type 2: Wages and salaries in kind

Wages and salaries in kind are remuneration in the form of goods or services (for example, supplementary medical assistance, company products supplied free or at reduced price, company car, staff housing, or the use of company facilities). The proportion of remuneration provided in kind can be either fixed or variable. National examples are shown in Table 3.

Table 3: National examples of wages and salaries in kind

Country	Schemes using wages and salaries in kind
Austria	<i>Deputate</i> (payments in kind)
	<i>Sachleistungen</i> (benefits in kind such as subsidised use of canteens and company childcare facilities, private use of company car or company phone)
Finland	<i>Luontoisedut</i> (non-monetary remuneration where the employee receives only access rights to goods, which must remain in the ownership or administration of the employer)
Germany	<i>Individuelle Unbare Leistungen</i> (individual non-cash payments)
	<i>Sachleistungen</i> (benefits in kind)
Hungary	Cafeteria system, which offers a 'menu' of benefits such as meal vouchers, back-to-school support, travel passes and entry to sports events; became widespread in the 1990s due to preferential taxation
Portugal	<i>Pagamentos em géneros</i> (payments in the form of goods or services)
	<i>Subsídios</i> (additional amounts paid for a particular reason such as meals or transport)
Spain	<i>Pagos en especie</i> (non-monetary payments to workers)
Sweden	<i>Lönförmåner</i> (non-monetary compensations for work)
UK	Non-pay fringe benefits

Source: Authors' elaboration based on national reports

Type 3: Supplementary social security contributions

Supplementary social security contributions are paid fully or partially by employers to social security schemes – for example, supplementary pensions, sickness insurance schemes, unemployment insurance – in addition to contributions required by regulations. These contributions can be collectively agreed, contractual or voluntary. Examples are shown in Table 4.

Table 4: National examples of supplementary social security contributions

Country	Supplementary social security contribution schemes
Belgium	<i>Groepsverzekering</i> (retirement insurance, where pension capital is paid by employers and received by employees at retirement age)
	<i>Hospitalisatieverzekering</i> (hospitalisation insurance, where employers pay part or all of the premium)
	<i>Fonds de sécurité d'existence</i> (funds for extra social security, that is, extra reimbursement in specific situations such as early retirement or long-term sickness)
France	<i>Plan d'épargne entreprise</i> (PEE) (employee saving schemes)
	<i>Plan d'épargne retraite collectif</i> (Perco) (saving schemes for retirement)
Germany	<i>Betriebliche Altersvorsorge</i> (occupational pensions)
Poland	<i>Pracowniczych programów emerytalnych</i> (PPE) (employee pension schemes, an additional form of pension savings)
UK	Employer contributions to pension schemes
	Private health insurance
	Sick pay in excess of statutory amount

Source: Authors' elaboration based on national reports

Type 4: Financial participation schemes

Financial participation takes the form of profit-sharing, employee share ownership and stock options offered by the company to all or some employees. Profit-sharing schemes are incentive plans introduced by companies in addition to employees' regular salary. In publicly traded companies, these plans may include the allocation of profits via shares to employees. Share-ownership schemes are intended to transfer shares from the enterprise to employees. The transfer takes place at a price usually below the market price. Stock-option schemes typically include the right to buy the enterprise's shares in the future at a favourable price already fixed. National examples are shown in Table 5. This type may overlap with Type 1 – variable PRP.

Table 5: National examples of financial participation schemes

Country	Financial participation schemes
Austria	<i>Gewinnbeteiligung</i> (profit-sharing)
	<i>Mitarbeiterbeteiligung</i> (share-ownership)
France	<i>Participation aux bénéfices</i> (profit-sharing)
Germany	<i>Gewinn-/Erfolgsbeteiligung</i> (profit-sharing)
	<i>Mitarbeiterkapitalbeteiligung</i> (capital participation)
Ireland	Approved profit-sharing scheme
	Gain-sharing (a form of profit-sharing)
	Save-as-you-earn scheme
UK	Profit-related pay
	Share incentive plan
	Save As You Earn

Source: Authors' elaboration based on national reports

Methodology

This report uses a combination of quantitative and qualitative analysis. A quantitative analysis – presented in Chapter 2 – was employed on the ECS 2013 data, clustering the data into five establishment categories through latent class analysis, as described in the Annex.

For the comparative analysis – presented in Chapter 3 – a qualitative, descriptive analysis was conducted based on national reports from Eurofound's network of European correspondents. A background note and questionnaire were distributed to these national experts in all EU Member States and Norway.

Structure of the report

The relevant literature in the field, presented in Chapter 1, sets the scene regarding recent research developments.

Chapter 2 presents an analysis of the ECS 2013 data, which is based on interviews with management representatives.

Chapter 3 comprises three parts. Part A identifies the extent of supplementary forms of pay in the EU Member States and Norway. Part B covers the national regulatory framework, including labour and tax legislation. Part C examines the role of collective bargaining, as well as the views of social partners on the subject.

The report closes with conclusions in Chapter 4.

Background and literature review 1

There is an extensive body of literature based on research into financial and non-financial reward systems, variable forms of pay and incentives for productivity. Research has intensified with the renewed pressure on competitive wage practices in a globalised economy. The literature review for the current study assisted with data mining and with the description of practices found at national level, enabling the examination of the magnitude of different remuneration systems, the role of collective bargaining and employee involvement, and the positions of national level social partners.

Agency theory

Variable pay concepts build on the central idea of agency theory, which suggests that incentives reduce the agency cost to companies of monitoring and encouraging worker output and effort (Prendergast, 1999). Companies that choose to implement a variable pay system are faced with a variety of options regarding the type of system to use, how broadly to assess performance, which tasks to measure and so on. These options are inexorably tied to both the goals for certain workers or groups and the tools available for performance measurement. The combination of measurement constraints and varied goals leads companies to adopt variable pay systems that fit best with their individual situations. This often entails enacting multiple incentive schemes within a single firm.

Measuring performance

A key issue in any discussion of variable pay systems is the difficulty of measuring performance. Even when performance can be measured, the indicators chosen by a company may not always be true indications of the actual value added by workers (Gibbons, 1998). Some companies may have processes that are very closely linked to adding value, while others may want to encourage a variety of tasks, and therefore rewarding just one with pay incentives runs a significant risk of detracting from other value contributions. The limitations of measurement have led to arguments in favour of weak incentives as the only way to preserve the right allocation of worker effort (Roberts, 2010). Other researchers claim that a certain minimum threshold for incentives must be met in order to induce more effort (Kauhanen and Piekkola, 2006).

Despite the difficulties present in measuring employee performance, a majority of European establishments surveyed in the ECS 2013 reported using some variable pay scheme for at least some of their employees. In fact, not only did 50% of companies in every industry category report the use of variable pay systems, more than 40% of companies in each industry reported using more than one scheme.

Combining schemes

Recent literature has explored the interaction between variable pay systems and the extent to which different schemes can be combined to produce better results. The most recent research suggests that combining individual performance measures with wider group- or company-based schemes can lead to increasingly positive effects. As mentioned above, individual incentives are difficult to attach directly to value creation and run the risk of contributing to a misallocation of employee time and effort. Pendleton and Robinson (2015), for example, suggest that one way that businesses are combating the possibly perverse incentives created by individual-level PRP schemes is to combine them with group incentives, most notably profit-sharing schemes. The argument is that, when a company wants to use an individual payment-by-results scheme but measurement of the value added by individuals is difficult, adding a profit-sharing element can improve organisational commitment and orient employees more accurately with company goals. This argument has not gone unchallenged, however, and competing studies come to very different conclusions. They suggest that, instead of producing a 'best of both worlds' situation, combining systems can bring both advantages and drawbacks. A study by Barnes and colleagues (2011) showed that when group and individual incentives were used in combination,

employees still tended to focus on their own individual tasks more than teamwork and that team members tended to work faster at the expense of accuracy and quality. The authors advocate using mixed schemes just as any other form of incentive pay would be used, that is, based on the characteristics and goals of the specific situation.

Delegation of decision-making

One factor that is central to the relationship between work organisation and variable pay is the role of uncertainty in company decision-making. It has been assumed thus far that a company has a fairly accurate idea of what kind of tasks provide value to it, even if measuring all of those tasks is a difficult proposition. The less that managers know about a situation, and therefore the less they know about what kind of employee effort creates value, the more they will delegate greater responsibility and a higher degree of decision-making autonomy to their workers. In this setting, in order to still maintain some control, incentive pay schemes will be used more frequently. As Barth and colleagues (2008) remarked, ‘when responsibility is delegated, firms use incentive pay schemes to constrain worker discretion’ (p. 9). These researchers subsequently provided empirical evidence to support the claim that the use of variable pay systems is positively associated with the uncertainty facing wage-setters in a company (Barth et al, 2009, 2012). Devaro and Kurtulus (2010) found similar results that suggest a balance between risk (defined as uncertainty in the market), delegation of worker authority and incentive pay. Their analysis finds a positive relationship between incentive pay and delegation of worker authority, as well as a positive relationship between worker autonomy and risk. Their results support the original hypothesis of Prendergast (2002): that companies facing an uncertain market delegate authority to employees and subsequently reward those employees using a PRP scheme.

Employee attitudes

Worker participation and autonomy is just one part of the discussion on variable pay and work organisation, with significant attention also given to employee attitudes and employee participation. Employee attitudes are important as positive attitudes can mitigate negative externalities of variable pay systems, while negative attitudes can undermine their effectiveness (Calmi et al, 2005; Pendleton, 2006). One way in which this undermining can occur is through a process of psychological ‘crowding out’, where incentives that are offered for certain tasks indicate some negative characteristic of that task. For example, offering incentives for a certain task or action ‘may signal that achieving a specific goal is difficult, that the task is not attractive, or that the agent is not well suited for it’ (Gneezy et al, 2011, p. 192). Recent research suggests that incentives offered by the principal (the term assigned to the wage-setter or management in agency theory) have a signalling effect, as well as encouraging effort, as agency theory proposes. In addition to signalling a principal’s valuation of the rewarded or non-rewarded tasks, the wage structure can also have powerful signalling effects regarding the overall perceptions that the principal has of the employees (Ellingsen and Johannesson, 2008). The argument from Ellingsen and Johannesson suggests that agents value the social esteem of their principal more highly if that principal signals a prosocial, trusting attitude towards the agent. In this case, prosocial agents will have a stronger desire to impress the principal and will perform better. However, this trusting attitude towards the agent implies an absence of performance pay measures. In other words, a signal of non-trust from management can undermine the effects of incentives, while prosocial signals can be profitable without the need for controlling incentives (Ellingsen and Johannesson, 2008).

Building trust and organisational commitment within a company is a key aspect of building effective incentive systems, and there are various ways that these attitudinal outcomes can be achieved. Coyle-Shapiro and colleagues (2002) suggest that profit-sharing can be a powerful tool to improve trust and commitment, although agent perceptions of their ability to contribute and whether they view profit-sharing as an act of reciprocity from management are key factors determining its effectiveness. Similar company-wide incentives, such as stock ownership plans, are also closely tied to internal

organisational structures. As Pendleton and Robinson (2010) suggest, smartly combining the degree of employee involvement and the coverage of a stock ownership plan is key to determining how effective the plan will be at promoting greater productivity.

Social dialogue

Within industrial relations literature, variable forms of pay have been examined in the context of the recent debate on pay regulation and the decentralisation of wage bargaining. With more agreements between social partners being made at a company level, individual employers have more flexibility in defining pay systems to cut costs or to enhance employee performance. Previous research has supported this hypothesis, showing that decentralisation in wage bargaining has opened businesses to variable pay systems and has increased the use of these schemes at various levels (Eurofound, 2009). This does not mean to imply that collective bargaining and variable pay are diametrically opposed institutions, but that variable pay systems are more often used when companies, as opposed to sectoral or national agreements, can set the terms of the pay agreement themselves.

Research conducted at the national level has returned varied results on the relationship between unions and variable pay. In Italy, for example, it was reported that collective bargaining and the presence of unions had increased the incidence of variable pay (Damiani and Ricci, 2014), while other countries experienced a more nuanced relationship between the two. A study from the Centre for Economic Performance in London suggested a U-shaped relationship between union density and the use of variable pay, where high levels of incentive pay were found when union density was either very low or very high but not in between (Bryson et al, 2012).

Eurofound (2011) – based on ECS 2009 data from the 27 EU Member States at the time – found that throughout Europe, PRP is more likely to have been implemented in establishments that have employee representatives and where a wage agreement is in place. This suggests that PRP is within the sphere of social dialogue. The study also showed that low and medium levels of trade union density at the establishment level increase the chances that establishments have adopted a PRP scheme compared with establishments with a high trade union density. In addition, when a company does not have an individual PRP scheme, the employee representative is more likely to report an ‘excellent’ climate of industrial relations.

Industrial relations literature has investigated trade unions’ concerns about marginalisation but has also stressed the possibility that share-ownership can give unions an additional voice in negotiating and implementing various forms of PRP (Eurofound, 2009). Trade unions have also been very sensitive to the possibility that variable pay systems could increase inequalities both between companies, with some companies offering bonuses and some companies not, and within companies. Recent research has found that inequality is connected with the use of variable pay systems, especially within companies, but that unions have a critical role to play in the degree of inequality that exists. Despite the propensity for variable pay to lead to within-firm inequality, unions have been found to mitigate this effect and maintain wage relationships. Barth and colleagues (2008) suggest that within-firm inequality is a major concern for Member States without a strong union presence, but that variable pay systems should have a very minimal effect on inequality in Member States with strong union structures.

Employee involvement in scheme design

Cooper and colleagues (1992) argued that when employees are involved in designing their own rewards, they perceive them as fair. This research suggested that giving employees a choice regarding their rewards will increase performance. Caza and colleagues (2015) found that performance was increased by almost 40% compared with workers who had no choice. Other research showed that when there is a joint management–employee committee designing the rewards, rather than a management-imposed decision, employees are more likely to find the outcomes fair and more satisfying (Schwarz, 1989). In this event, they may respond more positively to the reward system.

ECS 2013: Variable forms of pay 2

The European Company Survey (ECS) 2013 asked human resource managers in European establishments with more than 10 employees whether at least some of their employees received variable pay. The survey distinguished five forms of variable pay:

- payment by results (for example, piece rates, provisions, brokerages or commissions);
- pay linked to individual performance following management appraisal;
- pay linked to group performance (of the team, working group or department);
- profit-sharing schemes (pay linked to the results of the company or establishment);
- share-ownership schemes offered by the company.

Incidence of variable pay across Europe

About 6 out of 10 EU private sector establishments use some kind of variable pay for at least some of their employees (Table 6). The most common form of pay is linked to the individual performance of workers after management appraisal (43%), followed by payment by results (34%), profit-sharing (30%) and pay linked to group performance (25%). Share-ownership schemes are available in just 5% of European establishments.

There are substantial differences between Member States. For instance, in the Czech Republic, Estonia, Lithuania, Slovakia and Slovenia, more than 80% of the establishments use one or more type of variable pay. This is far more widespread than in Belgium, Croatia, Cyprus, Hungary, Italy, Portugal and Spain, where between 47% and 53% of establishments use variable pay.

Table 6: Use of variable pay in EU Member States, 2013

Country	Payment by results	Pay linked to individual performance	Pay linked to group performance	Profit-sharing scheme	Share-ownership scheme	Any form of variable pay
Austria	53%	56%	28%	46%	7%	79%
Belgium	30%	32%	18%	20%	5%	47%
Bulgaria	34%	40%	41%	34%	5%	64%
Croatia	35%	40%	20%	19%	3%	49%
Cyprus	28%	37%	16%	22%	6%	53%
Czech Republic	58%	74%	36%	51%	4%	88%
Denmark	36%	53%	25%	35%	6%	71%
Estonia	57%	54%	49%	42%	8%	86%
Finland	46%	44%	34%	51%	12%	78%
France	39%	40%	26%	41%	8%	69%
Germany	31%	44%	19%	30%	3%	61%
Greece	32%	39%	21%	17%	2%	57%
Hungary	23%	34%	15%	16%	2%	51%
Ireland	31%	38%	23%	24%	7%	60%
Italy	18%	35%	18%	18%	3%	48%
Latvia	30%	48%	32%	23%	1%	67%
Lithuania	72%	67%	48%	53%	13%	85%
Luxembourg	38%	43%	29%	29%	12%	66%
Malta	46%	43%	24%	13%	0%	70%
Netherlands	39%	48%	24%	34%	7%	68%
Poland	39%	55%	40%	34%	4%	74%

Changes in remuneration and reward systems

Country	Payment by results	Pay linked to individual performance	Pay linked to group performance	Profit-sharing scheme	Share-ownership scheme	Any form of variable pay
Portugal	27%	35%	25%	21%	3%	53%
Romania	40%	45%	29%	32%	2%	60%
Slovakia	50%	55%	40%	53%	3%	85%
Slovenia	40%	72%	48%	55%	8%	82%
Spain	34%	35%	23%	25%	5%	52%
Sweden	30%	36%	24%	38%	9%	63%
United Kingdom	36%	41%	25%	26%	9%	63%
Total	34%	43%	25%	30%	5%	62%

Notes: Private sector establishments only. For each type of variable pay, blue indicates lower percentages and yellow indicates higher percentages; shades intensify according to magnitude of the value.

Source: *ECS 2013*

A comparison of the use of variable pay in different sectors shows that transport has the lowest proportion of establishments that use any form of variable pay (Table 7). In contrast, the financial services sector has the highest proportion of establishments using all types of variable pay, with the exception of payment by results. Payment by results is most popular in the wholesale, retail, food and accommodation sector. It is notable that the differences between sectors are far smaller than the differences between countries.

Table 7: Use of variable pay in different sectors in the EU, 2013

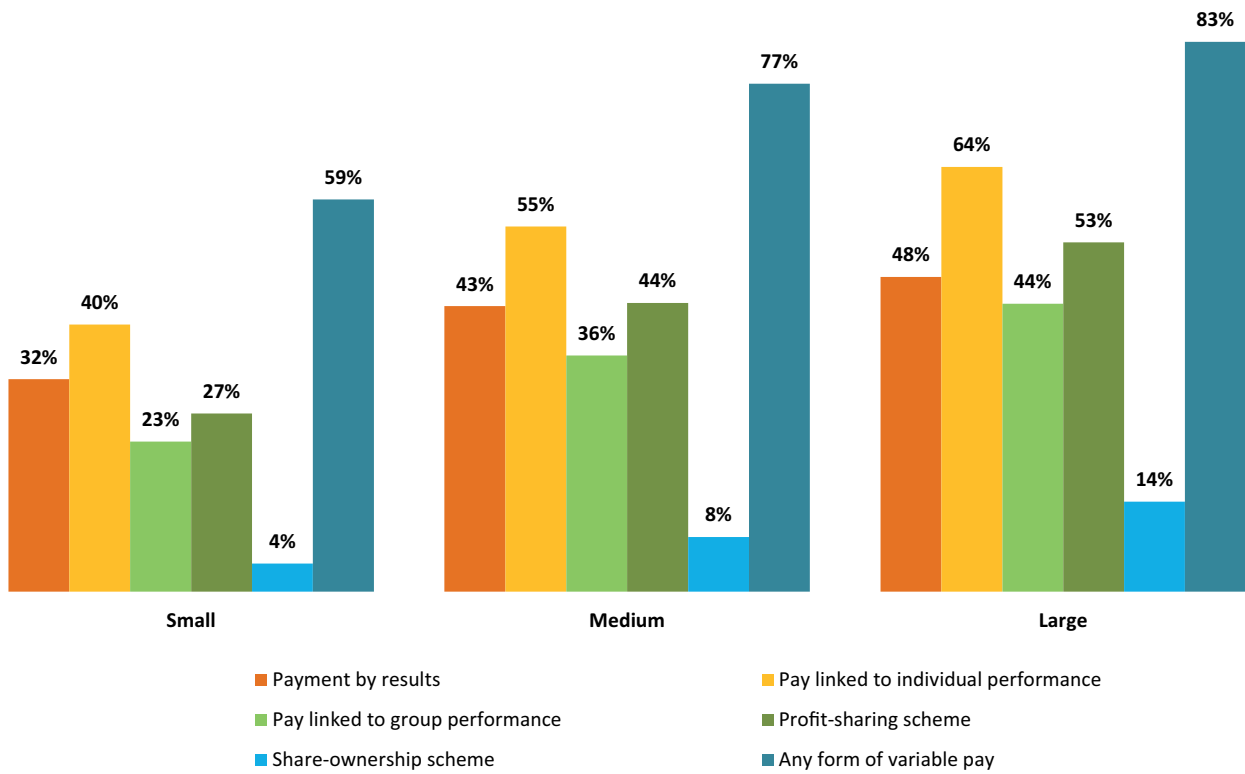
Sector	Payment by results	Pay linked to individual performance	Pay linked to group performance	Profit-sharing scheme	Share-ownership scheme	Any form of variable pay
Industry	29%	43%	24%	31%	5%	62%
Construction	30%	43%	25%	27%	4%	59%
Wholesale, retail, food and accommodation	42%	42%	26%	29%	5%	63%
Transport	26%	36%	17%	24%	4%	55%
Financial services	37%	50%	31%	37%	7%	71%
Other services	33%	45%	26%	30%	6%	63%

Notes: Private sector establishments only. For each type of variable pay, blue indicates lower percentages and yellow indicates higher percentages; shades intensify according to magnitude of the value. Values in the table have been rounded; hence shading may be different for identical values.

Source: *ECS 2013*

Variable pay is most common in large establishments, with around 5 out of 6 large establishments using at least one of form of variable pay, compared with 6 out of 10 small establishments (Figure 2). All company sizes show a very similar pattern in the relative distribution of various forms of variable pay. Pay linked to individual performance is the most common type, and share-ownership schemes are the least often used. In small establishments, payment by results is more common than profit-sharing schemes, which is not the case in medium-sized and large establishments.

Figure 2: Use of variable pay by establishment size across the EU, 2013



Notes: Private sector establishments only. Small establishments have 10–49 employees, medium-sized establishments have 50–249 employees, and large establishments have 250 or more employees.

Source: *ECS 2013*

The data presented above provide an overview of the proportions of establishments that use variable pay. Because variable pay might not apply to all employees in these establishments, it is also useful to examine the results of the European Working Conditions Survey (EWCS) 2015. This survey interviewed almost 43,000 workers in 35 countries about various aspects of their working conditions, including pay. About one in four employees (27%) in the EU28 reported that their earnings included some form of variable pay (Table 8). The percentage of employees receiving variable pay is considerably lower than the percentage of establishments using variable pay. This indicates that establishments use variable pay only for a minority of employees rather than as a general practice covering all their employees.

The most common types of variable pay among employees are pay linked to individual performance (received by 16%) and profit-sharing schemes (received by 13%). Only 4% reported that they were part of a share-ownership scheme. Receipt of all forms of variable pay was more often reported by men than by women, by full-timers than by part-timers, and by employees with higher incomes. All forms of variable pay, with the exception of payment by results, are most common among managers and least common among elementary occupations. Payment by results is most common among craft workers and least common among professional service and sales workers.

Table 8: Proportion of EU workers whose earnings include variable pay, 2015

Form of variable pay	% of employees
Payment by results	10
Pay linked to individual performance	16
Pay linked to group performance	9
Profit-sharing scheme	13
Share-ownership scheme	4
Any form of variable pay	27

Note: Figures are based on responses from workers in the EU28 countries who reported in 2015 that their earnings from work include these elements.

Source: *EWCS 2015*

Grouping establishments based on use of variable pay schemes

Eurofound has analysed the factors that predict the use of PRP in an establishment, using data from the 2009 ECS (Eurofound, 2011). This study found that contextual factors (country) and establishment-related factors (sector and company size) to a large extent determine whether an establishment will use PRP. Human resources and flexibility practices, pay-related social dialogue, and employee representation and voice were also significantly related to the use of PRP.

The results of that study served as an input for the current analysis. The aim was to explore the combinations in which the different forms of PRP are used in European establishments. The analysis uses ECS 2013 data, which to only a certain extent replicated the questions from the ECS 2009. For this reason, it was not possible to include all the variables identified as significant in the 2011 Eurofound report. However, as many of them as possible were included (see the Annex for details).

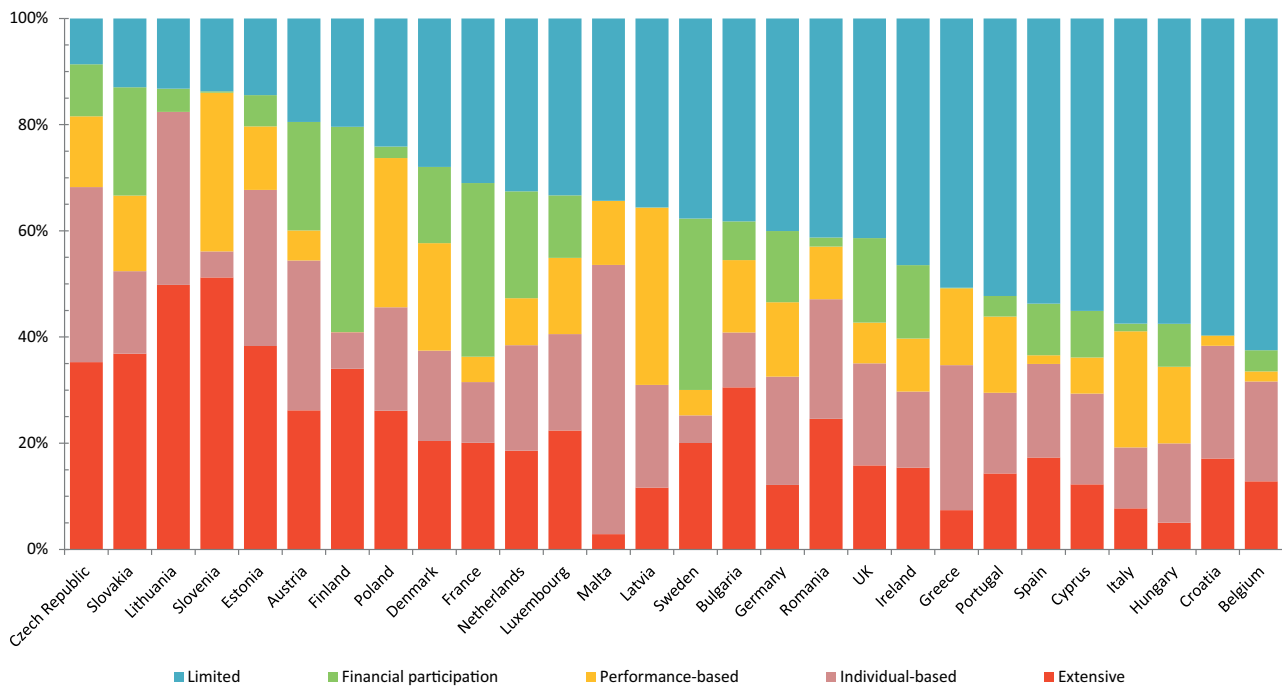
The analysis identified five distinct groups of establishments according to their use of variable pay: limited, financial participation, performance-based, individual-based and extensive. Generally speaking, the groups range from organisations that scarcely use variable pay to those that use it extensively. Table 9 shows the use of different types of variable pay in each type of establishment. Figure 3 shows the distribution of these groups across EU countries and Figure 4 shows their distribution across industry sectors. Table 10 depicts further characteristics of these groups.

Table 9: Grouping establishments based on the use of variable pay, 2013

		Limited	Financial participation	Performance-based	Individual-based	Extensive
Proportion of EU establishments belonging to the group		40%	12%	13%	18%	17%
Proportion of group using each system	Payment by results	6%	33%	0%	83%	74%
	Individual performance	9%	34%	66%	70%	84%
	Group performance	2%	11%	35%	28%	78%
	Profit sharing	2%	59%	33%	24%	77%
	Share ownership	0%	11%	1%	1%	18%

Notes: For each type of variable pay, shading intensifies as values increase. Values in the table have been rounded; hence shading may be different for identical values.

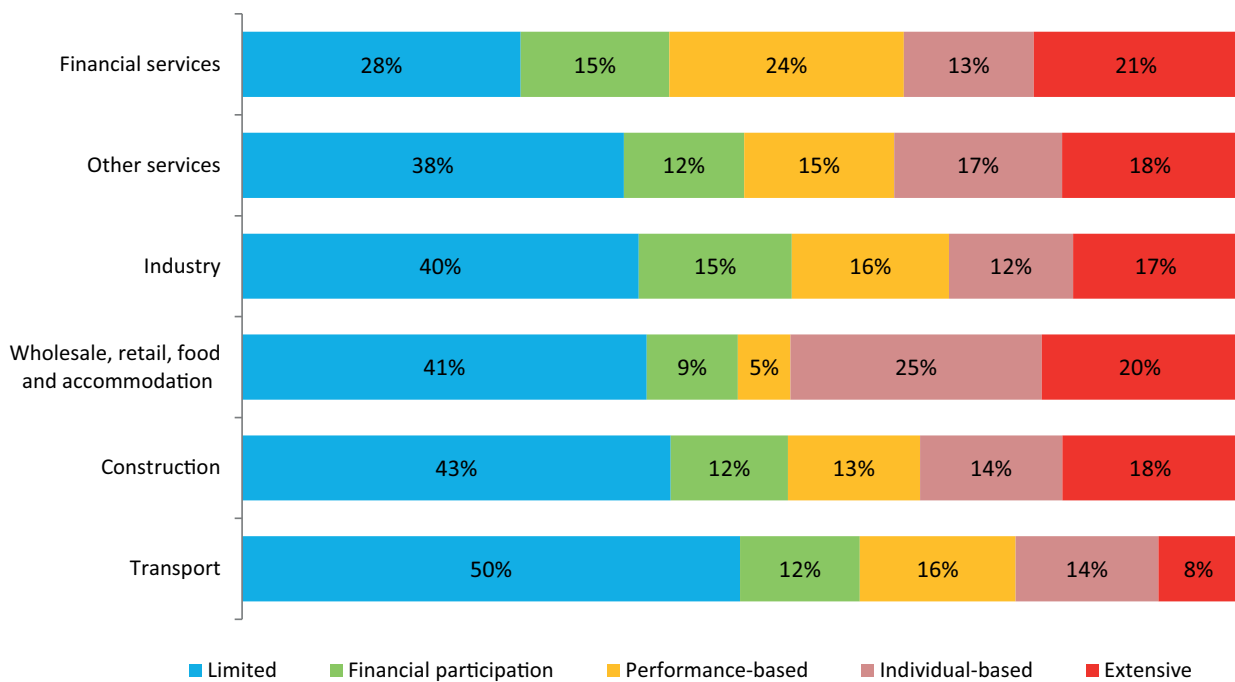
Figure 3: Types of establishments, by Member State, 2013



Note: The figure shows the percentage of organisations using each type of variable pay as a proportion of all organisations using variable pay.

Source: Authors' elaboration, based on ECS 2013

Figure 4: Types of establishments, by sector, EU, 2013



Source: Authors' elaboration, based on ECS 2013

Limited group

The limited group is the largest group, accounting for about 4 out of 10 establishments. These establishments rarely use any form of PRP. They are the most prevalent type of establishment in Belgium (accounting for 63% of all establishments), Croatia (60%), Hungary (58%) and Italy (57%). This group also accounts for half the establishments in the transport sector (50%) but just over a quarter (28%) of those in the financial services sector. It accounts for about 44% of small establishments (those with 10–49 employees).

As Table 10 illustrates, of all the groups, the limited group has the highest proportion of establishments with 20% or more part-time workers. It is the group least likely to provide employees with paid time off for training or to allow employees to use accumulated overtime for days off. This group also has the highest proportion of establishments with no teams. In terms of collective bargaining, this group has the lowest proportion of establishments whose workers are not covered by collective wage agreements. They are more likely than all other groups to be covered only by multi-employer collective bargaining. Limited group establishments are the least likely to report recent innovation (such as changes in marketing or communication methods, products, services and processes) or to report ‘good’ or ‘very good’ financial results.

Financial participation group

Establishments in the financial participation group are characterised by a relatively high use of profit-sharing and share-ownership schemes. Even though only 11% of establishments in this group use share-ownership schemes, this is high compared with other groups. The countries with the highest proportions of establishments in this group are Finland (39%), France (33%) and Sweden (32%). This group is least represented in the wholesale, retail, food and accommodation sector, and most well represented in the financial services and industry sectors. Half of the companies in the financial participation group offer paid time off for training. However, a high proportion of this group let employees use accumulated overtime for time off. Of all the groups, the financial participation group is the most likely to use autonomous teams and the least likely to have teams in which tasks are distributed by a superior. This group has also the highest proportion of establishments whose employees are not covered by collective wage agreements, and the lowest proportion of establishments whose employees are covered by both single- and multi-employer collective agreements. Organisations in this group are the most likely to report a ‘good’ or ‘very good’ financial situation but are less likely than those in most other groups to report recent innovation.

Performance-based group

One out of eight European establishments belongs to the performance-based group, which is characterised by a relatively high use of variable pay linked to individual performance and a moderate use of profit-sharing schemes and variable pay linked to group performance. This group is most frequently found in Latvia (33% of establishments), Slovenia (30%) and Poland (28%). It is least present in the wholesale, retail, food and accommodation sector and most well represented in financial services.

Establishments in this group tend to have a lower proportion of part-time employees and are moderately likely to let their employees use accumulated overtime for days off. However, they are more likely than most other groups to grant employees paid time off for training. Four out of five performance-based establishments work with teams and, in about 70% of these organisations, the teams’ tasks are distributed by a superior. A moderate proportion of performance-based establishments (67%) have employees covered by collective wage agreements. The proportion of establishments in which employees are covered only by single-employer wage agreements is relatively high in this group (15%). Compared with other groups, the performance-based group is moderately likely to report innovation activities and slightly less likely than most other groups to report ‘good’ or ‘very good’ financial results.

Individual-based group

The individual-based group is the second largest, accounting for 18% of all establishments. It is characterised by the widespread use of individual performance pay such as payment by results (used by 83% of all individual-based establishments) and pay linked to individual performance. The highest proportions of establishments in this group are found in Malta (51%), the Czech Republic (33%) and Lithuania (33%). In terms of sector, this group is most prevalent in the wholesale, retail, food and accommodation sector and least well represented in the industry sector.

Individual-based establishments tend to have a relatively high proportion of part-time workers. This group has a moderate proportion of establishments (73%) that let employees use accumulated overtime for days off. Establishments in this group are less likely than those in most other groups to offer 20% or more of their employees paid time off for training. Even though establishments in this group are relatively likely to use teams, they are the least likely of all the groups to have autonomous teams.

The proportion of establishments that have employees covered by collective wage agreements is moderate in this group. This group has the lowest proportion of all the groups of single-employer-only collective agreements, and the highest proportion of coverage by both single- and multi-employer agreements. A moderate proportion of individual-based establishments report innovation activities and ‘good’ or ‘very good’ financial results.

Extensive group

Establishments in the extensive group are characterised by comparatively high use of all the forms of variable pay. This group accounts for one in six European establishments and is most well represented in Slovenia (51%) and Lithuania (50%). It is most prevalent in the financial services sector and least in the transport sector. It has the highest share of employees in large and medium-sized establishments: 45% of employees in large organisations and 30% of those in medium-sized establishments belong to this group. The extensive group has the lowest proportion of establishments in which 20% or more employees are part-timers and the highest proportion of establishments that allow employees to use accumulated overtime for days off. This group is relatively keen on the use of teamwork and has the highest proportion of establishments in which team tasks are distributed by superiors. It also has relatively high proportions of establishments in which employees are covered either by single-employer or by both multi- and single-employer collective wage bargaining. The extensive group is relatively likely to report innovation activities and ‘good’ or ‘very good’ financial results.

Table 10: Features of each group of establishments, EU28, 2013

	Limited	Financial participation	Performance-based	Individual-based	Extensive	
At least 20% of employees work part time	27%	17%	18%	24%	16%	
Women comprise at least 40% of employees	44%	41%	43%	41%	44%	
At least 20% of employees receive paid time-off for training	38%	52%	60%	48%	62%	
At least some employees can use accumulated overtime for days off	60%	80%	72%	73%	81%	
Teamwork	No teams	36%	27%	21%	30%	9%
	Teams with task distribution by superior	47%	47%	55%	53%	67%
	Autonomous teams	17%	26%	24%	16%	25%
Coverage of wage agreements	No collective agreement	29%	41%	33%	34%	37%
	Only multi-employer bargaining	44%	36%	36%	34%	27%
	Only single-employer bargaining	12%	14%	15%	11%	16%
	Both multi-employer and single-employer bargaining	15%	9%	15%	21%	20%
Establishments report innovation	50%	63%	69%	69%	78%	
Establishments report good or very good financial situation	52%	72%	62%	65%	70%	

Note: For each feature (according to row), blue indicates lower percentages and yellow indicates higher percentages; colours intensify according to magnitude of the value.

Source: *ECS 2013*

Comparative analysis of remuneration and reward systems 3

Part A: Extent and evolution of supplementary reward systems

Analysis of the ECS 2013 data provides a picture of the implementation of variable pay in Europe. The more in-depth, qualitative analysis at national level in this chapter complements this picture. It provides information about types of remuneration and reward that go beyond traditional salary forms and the models used at national level. It also aims to analyse the prevalence and recent evolution of supplementary reward systems, and to identify the main categories of workers who benefit. From an industrial relations perspective, the degree of integration of these forms of remuneration into collective agreements and the position of national social partners is of paramount importance. Lastly, as this remuneration practice is fast-evolving, its regulation and recent changes in national regulation are relevant to policymakers keen to take action at national or European level.

EU-level data

A limited number of statistical sources provide fully comparative information about existing forms of supplementary reward systems at EU level. The two main sources of information are Eurostat's **Labour Cost Survey** and Eurofound's ECS. Table 6 in Chapter 2, which is sourced from the ECS 2013, shows significant differences between Member States in the use of variable pay systems. It is widespread in the Czech Republic, Estonia, Lithuania, Slovakia and Slovenia, but considerably less prevalent in Belgium, Croatia, Cyprus, Hungary, Italy, Portugal and Spain.

Eurostat's four-yearly Labour Cost Survey provides detailed data on the structure and level of labour costs, hours worked and hours paid. The latest available data (2012) show that, for the EU28 as a whole, approximately 66% of labour costs are made up of direct remuneration, including bonuses and allowances (Table 11). Collectively agreed, contractual and voluntary social security contributions represent 3.07% of the average European labour cost, and wages and salaries in kind and payments to employees' saving schemes represent 0.81% and 0.52%, respectively. Stock options and share purchase schemes account for just 0.03% of the average European labour cost (not shown in the table).

Table 11: Structure of labour costs as a percentage of total labour costs, EU, 2012

	Direct remuneration, bonuses and allowances	Payments to employees' savings schemes	Wages and salaries in kind	Collectively agreed, contractual and voluntary social security contributions	Other labour costs
Austria	64%	0.02%	0.73%	0.89%	36%
Belgium	66%	0.07%	1.35%	2.86%	30%
Bulgaria	75%	-	2.42%	0.19%	24%
Croatia	71%	-	5.79%	0.48%	24%
Czech Republic	65%	0.01%	1.13%	0.59%	34%
Cyprus	73%	-	1.35%	6.37%	20%
Denmark	73%	-	0.7%	7.08%	21%
Estonia	66%	-	0.79%	0.02%	34%
Finland	65%	0.08%	1.05%	0.25%	34%
France	62%	2.03%	0.19%	1.48%	35%
Germany	65%	0.21%	0.93%	2.92%	31%
Greece	71%	0.06%	0.38%	0.72%	29%
Hungary	64%	-	3.86%	0.48%	32%
Ireland	73%	-	0.85%	3.49%	23%
Italy	62%	0.01%	0.74%	0.64%	37%
Latvia	73%	-	0.13%	0.49%	27%
Lithuania	65%	-	0.15%	0.08%	35%

Changes in remuneration and reward systems

	Direct remuneration, bonuses and allowances	Payments to employees' savings schemes	Wages and salaries in kind	Collectively agreed, contractual and voluntary social security contributions	Other labour costs
Luxembourg	75%	0.2%	1.65%	1.29%	23%
Malta	85%	-	0.8%	0.02%	15%
Netherlands	66%	0%	1.31%	8.24%	25%
Norway	66%	-	2.76%	1.09%	31%
Poland	76%	-	0.77%	0.32%	23%
Portugal	73%	0.01%	1.04%	0.9%	25%
Romania	70%	-	0.86%	-	29%
Slovenia	73%	-	1.16%	1%	25%
Slovakia	64%	0.01%	1.42%	0.63%	34%
Spain	66%	0.01%	0.61%	0.73%	34%
Sweden	59%	0.03%	0.94%	6.67%	34%
UK	72%	0.72%	0.82%	5.5%	21%
EU28	66%	0.52%	0.81%	3.07%	30%

Notes: (–) = no data. Data refer to organisations with 10 or more employees in the industry, construction and services sectors, including public administration. Base pay is included in the first column, 'Direct remuneration, bonuses and allowances'. 'Other labour costs' include several elements such as payments for days not worked, wages and salaries of apprentices and associated employers' social contributions, statutory social security contributions, and employers' imputed social contributions or vocational training costs.

Source: Eurostat, *Labour Cost Survey*

The available data also show considerable differences between countries. Wages and salaries in kind are a relatively large labour cost in Croatia (where they represent 5.79% of total labour costs), Hungary (3.86%), Norway (2.76%) and Bulgaria (2.42%). In France, Latvia and Lithuania, this element represents less than 0.2% of total labour costs.

In the case of collectively agreed, contractual and voluntary social security contributions, this element represents more than 5% of labour costs in Cyprus, Denmark, the Netherlands, Sweden and the UK. This is significantly higher than in most other countries, where this component often represents less than 1% of total labour costs.

National data

Four types of supplementary reward schemes have been identified for the purpose of this analysis. For a summary of the definitions applied, please refer to the Definitions section in the Introduction to this report. Tables 2 to 5 provide national examples of the different types of schemes.

Use of variable PRP (Type 1)

National data confirm that variable performance-related reward systems are widespread in the Member States and Norway, although there are marked differences between countries. Examples of the systems used in different countries are described below.

- Around 34% of all employees in Belgium **receive some form of variable pay** (remunerations depending on results or occasional bonuses).
- 35% of salaried Finnish employees report that their individual performance influences their pay, and 39% say the same about team or unit performance.
- In France, 37% of workers have access to a collective PRP scheme.

- In the Netherlands, 64% of employees **receive flexible pay (PDF)**. For 30% of employees, the final annual wage is partly dependent on performance; for 28%, the bonus or 13th month is partly related to performance; and for 20%, the periodic raise is performance-related.
- In Luxembourg, 80% of workers **receive bonuses and allowances** in addition to their basic remuneration.

In other countries, these variable forms of pay are less extensive, as the following examples illustrate.

- An Irish study shows that the most common variable performance-related reward system in Ireland is **bonus schemes, followed by PRP** (covering 29.5% and 18.2% of employees, respectively).
- In Italy, 23% of employed workers **benefit from variable pay schemes** (related to productivity bonuses).
- A 2010 study by the Spanish Ministry of Employment found that 14.6% of workers **had a variable salary that depended on production or sales levels**.
- In Norway, 23% of wage-earners report receiving PRP, either as a bonus, sales commission or piece rate combined with a fixed salary (22%) or purely by piece rate or sales commission (0.8%). Meanwhile, 53% of private sector employees work in companies that use performance-based pay for their main group of employees, 37% work for a company that uses individual systems (bonuses or pay linked to individual management appraisal or performance assessments), 24% work for a company using group-based systems (group bonuses) and 9% work in companies using more traditional performance-based systems such as piece rates and commissions (Barth et al, 2015).

These variable pay forms are rarely used in some countries. In Denmark, of all employees in the private sector bargaining area covered by the Confederation of Danish Employers (DA) and the Confederation of Danish Trade Unions (LO) (around 650,000 full-time private employees excluding the financial sector and graduates) **only 3.5% receive PRP**. Just 1.9% of Greek employees benefit from commissions and tips, and just 1.6% benefit from **additional payments based on productivity**. The share of white-collar workers in the Swedish private sector **receiving performance-based pay** is around 9%.

Data from the perspective of companies also show that variable PRP forms are widespread in some countries, as follows.

- **Performance-based pay was part of the total salary** in 84% of Estonian private sector companies.
- In the UK, **55% of workplaces used one or more variable PRP scheme** in 2011, and 28% of private employees benefited from these schemes. Another study shows that just under half (49%) of UK organisations operate one or more **performance-related reward or recognition schemes (PDF)**.
- In Latvia, 34% of enterprises grant premiums to employees, which means approximately one-fifth of employees receive variable PRP. These premiums are based on employers' subjective perceptions in nearly all cases. **Evaluation according to teamwork or department results (PDF)** is not common in Latvia.
- In the Netherlands, 34% of employers use **individual performance-related payment systems** and 25% use group-based PRP.

Enterprises in some other countries are far less likely to use these payment forms. For example, only 13.4% of Italian companies have **productivity bonuses for their employees (PDF)**. These bonuses are usually linked to the achievement of productivity, efficiency and quality goals (92% of cases).

Use of wages and salaries in kind (Type 2)

National data show that use of wages and salaries in kind is extensive, especially in some countries, as described below.

- In Belgium, almost all employees (95%) enjoy **non-monetary fringe benefits**: commuting reimbursement (67%), luncheon vouchers (61%) and hospitalisation insurance (60%) are the most prevalent.
- In Finland, in-kind rewards are fairly common: in 2013, over 30% of the workforce benefited from the kilometre allowance (which covers use of the employee's own car for business travel); 22% received a full-time per-diem allowance; 15% received phone benefits; 11% received meal benefits; and fewer than 3% received employer-paid tickets for public transport or had access to a company car.
- In France, 3.8 million employees **benefit from luncheon vouchers** paid by employers and around 95% of all workers benefit from a **supplementary health insurance scheme (PDF)** paid by their employer.¹
- Approximately half of Latvian full-time employees benefited from at least one type of **complementary in-kind benefit (PDF)** – such as health insurance, company gift, travel costs, company car, paid mobile phone or meal subsidies – within the last year.
- Statistics from Norway show widespread use of **benefits in kind in the private sector**: 73% of private sector employees work for a company that provides electronic equipment such as mobile phones for private use; 55% work in a company that provides gym facilities, gym membership, physiotherapy or similar; 38% work in a company that offers free holiday accommodation and longer holidays than required by law or the collective agreement; 37% work in companies that provide private medical care; and 1% works in companies that provide childcare benefits.

Wages and salaries in kind are less common in some other countries. For example, 10.2% of Greek employees receive free or subsidised meals at work, 7.6% benefit from discounts on goods produced by their company, and 5.3% from subsidised utility bills. Just 10.6% of Irish employees **benefit from non-monetary incentives**, and only 9% of Italian employees **enjoy fringe benefits**. In Spain, 21.8% of private sector employees **receive subsidised meals or meal vouchers**, 21% receive transport support and 5% receive household support.

The available national information from an employer perspective also suggests that the use of wages and salaries in kind is widespread, at least for some employees.

- In Estonia, the **use of a company car and phone reimbursement** are the most common benefits: some Estonian public institutions compensate employees for mobile phone purchase and bills (36% and 11%, respectively) and 56% offer company cars for managers.
- In Hungary, a study of 419 companies found that up to 74% of employers **use the Cafeteria system** as a reward tool for employees.
- In Poland, 42% of companies surveyed provide employees with Christmas packages (a basket of gifts), 28% provide tickets for cultural events, 24% offer gift vouchers, and 18% provide supplementary medical assistance (Słomczewska-Klimiuk, 2014).
- In Slovakia, 51% of employers **provide benefits in kind**, covering up to 30.5% of all employees. The most common benefits include company laptop computers and company cars (31.6% and 25.9% of companies, respectively, provide these to some employees), followed by the sale of products to employees at a discount (12.8% of companies), equipment loans (11.4%) and financial loans (8.5%).

¹ All employees in France have to be covered by supplementary health insurance since 1 January 2016, following the signing of the 2013 National Cross-Sectoral Agreement.

Use of supplementary social security contributions (Type 3)

There are big differences again between Member States in the use of supplementary social security contributions. In Belgium and France, use is relatively widespread. Approximately 50% of Belgian employees have **supplementary retirement insurance**; in France, 46% of employees have access to an **employee saving scheme (PDF)** and 21% have access to a saving scheme for retirement.

In contrast, use in Finland, Greece, Italy and Spain is rare. In Finland, about 3% of the adult population report having supplementary pension insurance, and 7% have employer-paid sickness insurance. In Greece, 6.3% of employees benefit from a private pension or health insurance. Of these, in just over half (55.2%) of cases, the cost is paid by the employer alone, while in the remainder (44.8%) there is also some employee contribution. In Italy, 8% of employees are covered by **supplementary pension schemes** set out in collective agreements. In Spain, 8.9% of private sector employees benefit from **additional retirement plans or supplements to their retirement pensions**.

In Poland, 11% of companies surveyed offer their employees supplementary insurance schemes, such as life insurance (Słomczewska-Klimiuk, 2014). In Romania, a study of 166 large companies found that around 13% **offered private pension plans (PDF)** for employees.

Use of financial participation (Type 4)

National information on financial participation schemes (profit-sharing, share-ownership and stock-options schemes) confirms that these forms of variable pay, with the exception of profit-sharing, are far less widespread than other reward systems.

In Finland, only 11,000 employees benefited from such schemes in 2012. Just 1% of German companies had **capital participation schemes for employees (PDF)** in 2009. Another German study found that 4,275 companies offered **employee participation schemes** in 2009. Of these, 30.2% offered dormant partnership,² and 17% offered employee stock options. In total, 339,000 and 1,537,000 employees benefited from these schemes, respectively. In Greece, only 1.4% of employees **benefit from profit-sharing and bonuses**. In Italy, shareholding schemes are not widespread in small and medium-sized enterprises (SMEs), as most are family-run businesses. A survey of SME managers found that just 6% of them **benefited from stock options and shareholding plans (PDF)**. Similarly, in Malta, several studies confirm that **employee financial participation schemes are extremely limited (PDF)** (Abela, 2011), a finding that is in line with the ECS survey results.

Profit-sharing schemes are more common, as the following examples show.

- In France, 43% of **employees have access to a profit-sharing scheme (PDF)**.
- In the Netherlands, **profit-sharing arrangements (PDF)** exist for 13% of employees.
- In Ireland, 17% of employees benefit from a **profit-sharing, share-options or gain-sharing scheme**.
- In Spain, 15.9% of workers receive **some type of participation in the organisation's profits**.

From the perspective of companies, the only available information relates to Germany and shows that 9% of **establishments had a profit-sharing scheme (PDF)** in place in 2009, from which 66% of their employees benefited.

² Dormant partnership can be defined as a mix of equity and debt capital, where employees make deposits, which then become the property of the company. Employees do not appear as partners of the companies concerned, but have legal claims to a share in the profits.

Variable pay in total remuneration

According to national information, variable pay usually represents a relatively significant percentage of total salary levels, ranging from 5% to 11% in most of the countries where information is available.

- The **share of variable pay in Belgium** is around 11% of the total yearly salary.
- **Statistics from Bulgaria** show average gross annual earnings of €4,160, of which irregular bonuses (quarterly bonuses, 13th or 14th month salaries and other gratuities) amount to €208 and annual payments in kind to €105 (5.0% and 2.5%, respectively, of gross annual earnings).
- **Productivity bonuses for Italian employees (PDF)** account on average for 4.5% of their gross pay.
- **Figures from Latvia (PDF)** show that regular remuneration accounted for 93.7% of total labour costs in 2014, 5.9% was irregular remuneration and 0.4% was remuneration in kind.
- Data on **irregular pay in Luxembourg** show that it represents 11.5% of employees' compensation. PRP (direct remuneration, together with bonuses and allowances not paid each pay period) represents the largest part of this irregular compensation (8.3%), followed by wages and salaries in kind (1.7%), and payments to employee savings schemes and collectively agreed contractual and voluntary social security contributions (1.5%).
- In **Malta, bonuses and allowances** accounted for nearly 10% of wage costs in 2012, and fringe benefits comprised slightly less than 1% of the total wage bill.
- **Bonuses and prizes** accounted for 11% of the average gross wage in Poland in 2010. While the average monthly gross wage in Poland at the end of 2014 was 3,942 PLN (approximately €925), average expenditure on non-salary benefits was 726 PLN (approximately €170) during the whole of 2014 (Slomczewska-Klimiuk, 2014).
- Data from the Portuguese Ministry of Economy show that **non-regular rewards and allowances (XLS)** stand at a yearly mean of €2,579 (15.8% of mean total earnings). Within this category of non-regular payments, the largest portion consists of seasonal allowances and rewards (83.9% of the total), while productivity-based and profit-sharing rewards are much less significant (9.8% and 5.2%, respectively).
- In Slovenia, **variable pay forms 15% of wages**, where approximately 5% of the total wage is related to individual performance.
- In Spain, 12.6% of the total gross salary is made up of **extraordinary payments (both fixed and variable)**, with payments in kind making up just 0.13%.

In contrast, in some countries, including Estonia and Lithuania, variable pay represents a large share of the total salary. **Variable pay makes up to 20% of total pay** for the average Estonian employee, and in Lithuania, **performance-related incentives in cash accounted for 25% of pay** in 2009.

Variation according to workers' characteristics

Gender: There is strong evidence from a large number of countries that variable forms of remuneration and reward are more common among men than women, as in the examples below.

- In Finland, 42% and 46% of men report that they benefit from individual or team/unit performance-based schemes, respectively, in comparison to 28% and 30% of women. In addition, 17% of men, compared with 14% of women, state that they enjoy in-kind benefits. Finnish data also indicate that 75.5% of beneficiaries of employee stock options were men.

- In France, companies with a high proportion of female workers are **less likely to have profit-sharing schemes and bonuses (PDF)**, but if they do, they distribute more often and higher amounts.
- In Italy, **13% of Italian men receive in-kind benefits** in comparison to 6% of women.
- In Norway, **32% of male wage earners benefit from PRP systems** compared with 14% of female wage earners.
- **Spanish women are more likely than men to report that they receive no rewards** in addition to their regular salary, whereas men are much more likely to receive variable incentivised rewards, performance-related incentives and in-kind benefits.
- Among full-time employees in Portugal, the **differential between mean figures for base wages and total earnings (XLS)** (used as a proxy indicator for flexible or variable pay stands at 19.9%). This difference is greater for men (21.7%) than women (17.4%), in addition to the fact that men receive a substantially higher base wage.
- A Swedish study conducted in 2009 found that both in-kind benefits (for example, subsidised lunches or use of a company car) and bonuses were **more common among male university graduates (PDF)** (10.3% and 11.7%, respectively) than female graduates (5.7% and 5.2%, also respectively).

A possible explanation for these gender differences is the larger proportion of men in higher positions and in sectors where variable pay systems are more common, for example, consultancy, finance and information and communications technology (ICT).

Age: Official information from some countries, including data from the Bulgarian National Statistical Institute, the Economic and Social Research Institute in Ireland, the Italian Institute for the Development of Vocational Training for Workers and the Slovak Ministry of Labour, Social Affairs and Family, show that rewards in addition to basic salary are more common among the middle-aged employees than among younger and older employees. In Bulgaria, for example, employees aged 30–39, 40–49 and 50–59 have the highest levels of supplementary rewards (7.7%, 8.0% and 7.6% of gross annual earnings, respectively), much higher than those aged under 20 (2.3%) or 60-plus (5.7%).

Occupation: There is an overwhelming amount of national evidence suggesting that supplementary reward systems are more common among individuals in higher positions within an organisation. Therefore, managers and executives, professionals and technicians usually benefit most from these systems. This information is presented in Table 12.

Table 12: Overview of variation in supplementary employee reward systems by occupation, according to Member State

Country	Details of variation according to occupation
Estonia	Variable pay makes up to 30%–35% of total pay for an average sales staff member , well above the average of 20% for Estonian employees.
Finland	PRP is most common among high-ranking officials (48% benefit from it) while relatively rare among workers (28%). The vast majority of employees benefiting from stock options are men in high-ranking jobs with an annual income above €35,000.
Ireland	People in higher-level jobs are more likely to receive additional rewards and incentivised reward systems than those further down the occupational structure. Craft and related workers are the least likely to benefit.
Italy	Fringe benefits are widespread among SME managers: 93% have a company mobile phone; 85% drive a company car; 62% have access to the company canteen; 19% receive meal vouchers; 16% receive medical check-ups and paid membership of clubs or gyms; 7% receive financial support to cover rent or accommodation; and 4% receive subsidised loans. Also, 66% receive a bonus, usually conditional on company results (80% of cases). One-off bonuses are paid to 68% of the sample, generally as a reward for achieving particular targets. Bonuses amounted to 11.8% of fixed pay, while bonuses relating to the achievement of targets represented 18%. Many have a death or disability plan (39%) or healthcare plan (41%), and 15% have some pension funds.
Latvia	The most important factor in the range and volume of benefits received is the level and type of job (PDF) . Owners, directors, middle-level managers, professionals and associate professionals are more likely to receive benefits than lower-level employees. The type of benefit also varies according to position. Company gifts are mostly received by middle-level managers and skilled office staff, while company cars and mobile phones are mostly received by managers and high-ranking individuals.

Changes in remuneration and reward systems

Country	Details of variation according to occupation
Lithuania	Incentives and rewards are mainly used for sales and marketing managers .
Luxembourg	87% of high-skilled white collar workers receive bonuses and allowances in addition to their basic remuneration , compared with 81% of low-skilled white collar workers, 78% of high-skilled blue collar workers and 66% of low-skilled blue collar workers.
Malta	Performance-related payments are most commonly used among managerial grades in both private and public sector organisations. In the public sector, only officers employed in the top managerial scales have a performance agreement in place and receive a performance-related bonus added to their salary.
Romania	A study of 166 large Romanian companies (PDF) shows that 21.6% of top managers and 16.4% of middle managers receive a performance bonus, well above the proportions for other groups such as support or administrative staff and shop-floor workers (8.5% and 6.6%).
Spain	A study of ICT companies (PDF) illustrates that 81% of general directors and managers receive fringe benefits, compared with around 15%–22% of technicians and experts.
UK	Certain schemes, particularly those that offer direct financial reward, are more commonly offered to managerial employees than non-managerial employees (PDF) . The respective proportions are 53% and 45% for individual bonuses, 47% and 45% for merit pay, and 45% and 34% for combination schemes.

Source: *National reports*

Supplementary reward systems as a proportion of earnings

Information from several Member States shows that people in job categories that benefit more from supplementary reward schemes usually receive a higher proportion of their earnings in this way.

- **Bulgarian national statistics (PDF)** reveal that both irregular bonuses and payments in kind represent more than 8.5% of total remuneration for managers, professionals, technicians and associate professionals.
- Figures from the **Czech Statistical Office** show that the proportion of premiums and bonuses in relation to total gross wages is highest for top government officials and senior corporate executives and managers (22.1% of their gross wages compared with the national average of 14.2%).
- A **study of the ICT sector in Spain** shows that, for managers, variable pay can represent up to 20% of total salary.
- According to Slovenian data, the highest annual bonuses (€1,172) are paid to legislators, senior officials and managers, followed by technicians and associate professionals (€933) and clerical support workers (€810). The national average bonus is €686.

There are exceptions to these general patterns. Variable pay makes up a larger share of total pay for workers in sectors such as mining, quarrying and transport in some eastern European countries such as **Bulgaria, Estonia and Slovakia (PDF)**.

In Germany, Greece and Hungary, supplementary reward systems tend to be widely distributed among all categories of employer, especially in large companies. Around 15% of **German companies offering shares to employees (PDF)** offer them solely to their executives, while 36% offer shares to a broad range of employees. A **Greek survey of 117 large companies** found that 32% of them determine whether employees participate in productivity bonus programmes on the basis of the importance and responsibilities of their job, while 28% include all employees, and 11% apply the policy solely to managers. **Hungarian research** shows that 95% of companies using these systems apply them to all employees and just 5% apply them to certain workers or groups.

Variation according to companies' characteristics

Private versus public sector: National data show that supplementary reward schemes are more widespread in the private sector than in the public sector in a large number of countries, although there are some exceptions to this.

Team or unit performance rewards are more common in Finnish private industry than among public sector employees (59% and 20%, respectively). Similarly, **almost half of Irish employees in the private sector** indicate that their salary packages include incentivised or variable rewards, compared with just 11% of those in the public sector. Private sector workers are much more likely than public sector workers to benefit from bonus schemes (37% versus 3%), to earn PRP (22% versus 6%), to receive financial participation-based payments such as share options, profit-sharing or gain-sharing (21% versus 3%) or to receive non-monetary incentives (13% versus 2%). In contrast, traditional regular salary increments are more common among public employees (60% versus 41%).

In Norway, 32% of private sector employees are covered by PRP systems, including bonuses, compared with 7% of public sector employees. In the Norwegian private sector, the performance-related component is larger in relation to the total salary than in the public sector (Barth et al, 2015; Statistics Norway, 2013).

Incentive schemes in the UK are **more common in the private than in the public sector** (59% compared with 21%). In addition, data from the UK show substantial differences in the types of supplementary reward used in the public and private sectors. Merit pay is the most common form of incentive in the public sector and the voluntary sector. **Individual bonuses and PRP are more widespread in private services and manufacturing companies:** 65% of private manufacturing organisations and 55% of private sector services operate performance-related reward schemes, compared with 44% of organisations in the public sector and 28% of those in the voluntary or not-for-profit sector. A similar **predominance of variable pay in the private sector (PDF)** compared with the public sector is found in Latvia.

In contrast, in Luxembourg, **100% of public administration workers receive bonuses and allowances** in addition to their annual remuneration, as these bonuses are guaranteed by collective agreements. In Spain, social benefits – especially household support, additional retirement plans and supplements for retirement pensions – are **more widespread in the public administration sector** than in private enterprises.

Economic sector: Within the private sector, reward systems are particularly widespread in certain economic sectors, especially the ICT, financial and insurance, and consultancy sectors, as shown in Table 13. Evidence from several Member States confirms the higher share that supplementary wages represent in relation to total wages in these sectors.

In **France** and Norway (Barth et al, 2015), the presence of financial participation schemes is particularly important in the manufacture of coke and refined petroleum products. In Latvia, the **highest presence of non-regular pay systems (PDF)** is in the ICT and the electricity and gas sectors. In Italy, **productivity bonuses are used by 17.7% of companies in the manufacturing sector (PDF)**, compared with 13.9% in construction, 11.6% in social and personal services, and 10.2% in market-oriented services.

Supplementary reward systems are very important in the mining and quarrying sectors in several eastern European countries. The highest proportions of variable pay (mainly bonuses, allowances and prizes) occur in the mining and quarrying and the electricity, gas and water supply sectors in Poland and Romania. This is probably explained by the dominance in these sectors of large, publicly owned companies, covered by a high level of collective agreements and where trade unions have a relatively strong position.

Table 13: Overview of variation in supplementary reward systems by economic sector, according to Member State

Country	Details of variation according to sector
Belgium	Non-monetary fringe benefits are particularly widespread in the ICT, finance and consultancy sectors. More than half of employees in these sectors enjoy a transport allowance, and more than two-thirds have retirement and hospitalisation supplementary insurance. In the hotel and catering sector, 17% of employees have retirement insurance and 35% have hospitalisation insurance, although a transport allowance is available to 68%. The same report shows that differences between managerial and non-managerial positions are less acute in some high-skilled sectors, such as consultancy, ICT and engineering, than in sectors such as hotel and catering, transport and distribution, or education.
Bulgaria	Employers in the following sectors have the highest share of irregular bonuses and in-kind payments in relation to total gross earnings: electricity and gas supply, mining and quarrying, finance and insurance, ICT, and public administration. Sectors with the lowest share are hotels and restaurants, construction, and wholesale and retail.
Czech Republic	Non-statutory social security contributions as a percentage of labour costs are highest in the finance and insurance and the electricity and gas sectors. They are lowest in public administration.
Germany	Profit-sharing schemes (PDF) are particularly common in ICT (31%) and financial and banking companies (24%).
Ireland	Irish workers in hotels and restaurants are least likely to benefit from PRP. Workers in manufacturing, finance and business services are most likely to benefit. Profit-sharing schemes are quite common in the software and ICT sectors.
Italy	Benefits in kind (PDF) , such as access to nurseries, care services and leisure activities, are more widespread in tertiary-level companies (especially those involved in ICT) than manufacturing companies.
Luxembourg	In the accommodation and food services, 43% of employees receive bonuses and allowances in addition to annual remuneration , much lower than in other sectors: 96% in the financial and insurance sector, 86% in manufacturing and 73% in ICT. Variable remuneration as a percentage of total labour costs is relatively high in the following sectors: financial and insurance (19.9%), professional, scientific and technical activities (15.6%), ICT (11.4%) and real estate (10.1%). The lowest percentages are in accommodation and food services (3.8%), administrative and support services (4.7%) and construction (5.5%).
Malta	Bonuses, allowances and fringe benefits as a proportion of the wage bill are highest in the professional, scientific and technical activities sector and the finance and insurance sector. The proportions are lowest in transport and storage, mining and quarrying, and construction.
Portugal	Irregular rewards and allowances account for 20% of total gross earnings (XLS) in the finance and insurance sector, far higher than in sectors such as hotels and catering or education. The financial sector shows a very strong preference for profit-sharing schemes, whereas in-kind payments are more important in the electricity and gas sector.
Spain	Social benefits and participation in business profits are quite common in the ICT and the financial and insurance sectors. The highest percentages of payments in kind are found in sectors such as telecommunications and manufacturing of pharmaceutical products.

Source: *National reports*

Company size: Information from several countries confirms that larger companies are more likely to offer supplementary rewards and that their proportion of overall remuneration is greater in larger companies. More information is presented in Table 14.

Table 14: Overview of variation in supplementary reward systems by company size, according to Member State

Country	Details of variation according to company size
Finland	PRP is most common among Finnish enterprises with 200 employees or more and least common in enterprises with fewer than 10 employees (86% versus 50%).
France	When companies with between 10 and 49 employees (PDF) implement PRP and profit-sharing schemes, the amount of bonuses is significantly higher than in larger companies.
Germany	The percentage of enterprises offering profit-sharing and capital-participation schemes rises with the size of the establishment (PDF) . Both schemes are most often used in establishments with 500 or more employees (35% and 7%, respectively, well above the national averages of 9% and 1%).
Hungary	34% of micro enterprises provide Cafeteria schemes . This percentage rises to 63% in the case of SMEs and 79% for large enterprises.
Ireland	94% of employees in enterprises with more than 250 employees are offered some form of employee incentive . This compares with 41% of employees in companies with 1–9 employees. Only 8% of employees in large companies are in organisations with no pension scheme, compared with 56% in the smallest companies.
Lithuania	More than 90% of large organisations use variable pay , but not necessarily for all categories of employees. More organisations use individual bonuses than team-based bonuses (Berber and Slavić, 2014).
Luxembourg	Variable pay represents on average 9.5% of total compensation in enterprises with 10–49 employees compared with 15.1% in enterprises with 500–999 employees.

Country	Details of reward systems according to company size
Romania	Large companies offer a wide array of non-wage benefits (PDF) . These include meal vouchers and supplementary medical assistance (almost 70% of companies), followed by bonuses for social activities (60%), refreshments at work (50%), special occasion gifts (45%), overdrafts (40%), bonuses related to sports (25%) and transport subsidies (20%).
Slovenia	In Slovenian enterprises with 250 and more employees, the amount of annual bonuses is 10.3% higher than the national average.
Spain	Up to 70% of large employers offer complementary health insurance to employees, well above the national average. Another survey shows that only 16% of large employers do not offer any in-kind benefits . The most common non-monetary benefits offered are company car (41% of all employers), followed by medical insurance and meal allowances (38% and 36%, respectively). Around half (56%) of companies pay some type of variable remuneration to the majority of employees. These variable components are calculated according to individual objectives (69.7% of the cases), company results (52.4%), team objectives (36.2%) or individual performance appraisal (34.1%).
UK	Smaller organisations are less likely to use performance-related schemes (39% for companies with fewer than 250 employees in comparison to 63% for those with between 250 and 9,999 employees and 64% for the largest organisations).

Source: *National reports*

The fact that employees in larger enterprises are more likely to be covered by collective agreements could explain this strong size effect. The **ECS 2013 overview report** and a **study by the RS Group in Latvia (PDF)** both concluded that variable pay schemes are more likely in companies covered by collective agreements. In other cases, legal provisions could explain the size differences. This is the case in France, where laws state that profit-sharing agreements are compulsory in companies with 50 or more employees. It is therefore not unusual that agreements about supplementary reward systems are present in virtually all companies with 1,000 or more employees, whereas they are relatively rare in very small companies (only 10% have such a scheme in place). Also in France, larger employers are **legally obliged to fund works councils (PDF)** so that these works councils may finance a range of social and cultural activities for employees. This may explain why access to this type of reward is strongly biased towards employees of large enterprises, as many employees of very small companies are not covered by a works council.

Geographical span: National information shows that supplementary reward systems are especially common in national branches of foreign capital and multinational companies, as the following examples show.

- In Ireland, **financial participation schemes are widespread in multinational companies**.
- In Norway, both individual and group-based PRP systems are positively correlated with foreign ownership and exporting enterprises that operate in highly competitive markets (Barth et al, 2015).
- In the UK, **internationally owned organisations are the most likely to use these payment incentives (PDF)**, with up to 74% of them offering such schemes.

Region: Information from the Czech Republic and Italy shows that variable forms of pay are more likely to be used in central locations and developed regions. Thus, in the Czech case, the **highest percentages of variable forms of pay in relation to total wages were recorded in the capital city of Prague**. This result is probably explained by a higher presence of large foreign companies and central government offices that employ highly skilled workers. Meanwhile, in Italy, **productivity bonuses are more widespread in the north (PDF)** of the country (15.5% in north-western regions, and 17.1% in north-eastern regions) than in the south (7.2%). Similar geographical patterns can be found in relation to **variable pay schemes**.

Reward systems and working conditions

There is very limited national information on the relationship between working conditions and the use of supplementary reward systems. Generally speaking, these forms of remuneration are more common in workplaces that both foster their employees' involvement and job autonomy and pay higher salaries.

Irish information shows that both the **presence of direct participation arrangements within an enterprise and the personal involvement of employees** increase the likelihood that employees will receive variable incentivised reward schemes.

In Norway, individual performance-based pay is used most by companies in which employees have a high degree of individual autonomy (Barth et al, 2015). In other words, workers are rewarded for increased responsibility and flexibility associated with more direct participation, greater levels of consultation and devolved decision-making.

Moreover, information from several countries suggests a positive relationship between higher salaries and supplementary employee reward systems, an element that is probably explained by the greater presence of these forms of remuneration among high-ranked employees. For instance, in Finland less than 5% of workers with annual wages under €20,000 receive benefits in kind, compared with over 50% of those earning more than €55,000 per year. In **France, companies with high average wage levels (PDF)** are significantly more likely not only to have financial participation schemes but also to use them more often and to distribute larger amounts to their employees. This results in a reinforcement of existing inequalities in wage structures among different groups.

Interestingly, the same French study identifies that companies with high (above median) proportions of permanent contracts are more likely to have profit-sharing schemes in which permanent employees receive more generous payments (for example, bonuses) than employees on fixed-term contracts. Similarly, an Irish study shows that **permanent employees and full-time workers are more likely to benefit** from incentive-based rewards and other additional in-kind rewards than their counterparts on non-standard contracts.

Finally, the presence of employee representation structures increases not only the likelihood that a company will use some form of variable remuneration but also the generosity of these schemes and their extension to different job categories. For instance, in Latvia, **employees who have a collective agreement in place (PDF)** are more likely to receive at least one complementary benefit. Similar results have been found **in France (PDF), the Netherlands** and in some **pan-European studies**, emphasising the relationship between collective bargaining practices and the presence and importance of these reward schemes. Meanwhile, a Norwegian study suggests that the presence of unions in a strong bargaining position slows the introduction of more controversial systems based on individual performance (Barth et al, 2015).

Evolution and future of supplementary reward systems

Increase in recent decades

Information from several countries indicates that the presence of supplementary employee reward systems has increased in recent decades, both in terms of the number of companies using them and the number of employees covered, as the following examples show.

- In France, both employee saving schemes (PEE and Perco) and PRP/profit-sharing schemes have **increased in the last decade (PDF)**.
- In Ireland, evidence suggests that **variable pay and financial participation schemes have increased since 1998**, when the so-called ‘Celtic Tiger’ economic boom began, although their use has been negatively affected by the financial and economic crisis since 2008.
- In Norway, after a large increase in the late 1990s and early 2000s, the use of such types of remuneration has stabilised in recent years (Barth et al, 2015).

- In Poland, the number of **beneficiaries of in-kind benefits increased continuously (PDF)** between 2005 and 2013.
- The proportion of Spanish **companies offering a flexible remuneration plan** nearly tripled between 2006 and 2013.

Impact of the economic crisis

Information from a large number of countries also shows that the recent economic crisis had a negative impact on the use of supplementary variable remuneration and rewards, which have been cut in order to reduce labour costs.

- A report from the Confederation of Independent Trade Unions of Bulgaria stresses that the **cancellation of remuneration bonuses and a strong reduction of social benefits** is at the heart of the reduction of labour costs experienced by the Bulgarian economy in recent years.
- Finnish studies show that **the crisis had a negative impact (PDF)** on the extent of both performance-based rewards and in-kind benefits. These benefits recovered to previous pre-crisis levels from 2011 onwards.
- In Estonia, companies restricted additional pay schemes to cope with the worsening economic situation (Viilmann, 2010). Another study shows that these schemes **have increased their importance in the overall wage structure since 2012** due to recovery from the economic crisis.
- In Germany, studies from the **Institute for Employment Research (PDF)** and **Ernst & Young (PDF)** show that take-up of both profit-sharing and employee capital participation schemes fell during the crisis.
- In Ireland, most private sector companies responded to the crisis by freezing basic pay at pre-crisis levels while **extra or variable earnings were cut to reduce labour costs**, together with other strategies such as redundancies, cuts in overtime and hiring new labour market entrants at significantly reduced pay rates.
- A Latvian study shows that **national enterprises are increasingly applying reward systems in recent years** due to the economic recovery.
- In Luxembourg, some studies have shown that companies **used variable pay as a way to adjust labour costs during the crisis** by circumventing strict national wage-setting regulations, as variable pay schemes are less regulated by law or collective agreements. From 2008 to 2012, total labour costs grew on average by 2.3% per year, whereas ‘bonuses and allowances not paid for each pay period’ (the largest component of variable pay) **decreased on average by 2.7% per year**.
- In Hungary, the regulation of the Cafeteria system has changed over the years in line with the government’s economic and social policy objectives. The system had become very popular for both employees and employers due to its tax-free nature, but during the crisis, the government levied tax on this system. The range of tax-free benefits was dramatically cut from 2010, when popular benefit items were first taxed and then became subject to social security contributions.
- Similar decreases in the importance of flexible pay can be observed in Norway (Barth et al, 2015), **Poland** and **the Netherlands**.
- A study from the Netherlands found that **the number of collective agreements containing provisions on variable pay had dropped** since 2010.

This situation seems to be affecting all worker groups, including top managers – as an **Austrian study of bonus payments** showed recently – as well as large enterprises. A 2014 Romanian study of remuneration packages in large enterprises shows that, after 2008, the **share of variable bonuses and in-kind benefits experienced a decreasing trend (PDF)**. As a result, fixed income (basic salary and fixed bonuses) now represents 92% of the total remuneration package,

compared with only 69% in 2008. Performance-related bonuses have decreased to 5% and extra-wage bonuses to 3% of total remuneration. This compares with 20% and 9%, respectively, in 2008.

However, information from other Member States contradicts this negative relationship between the economic crisis and the use of supplementary rewards. For example, statistics from the **Central Bank of Malta** and the Spanish Ministry of Employment show an increase in these forms of payment since the beginning of the economic crisis. In these cases, given the salary freezes applied by many companies, variable remuneration and social benefits are a **convenient tool for increasing salaries**, particularly in crisis times when companies do not want to take the risk of increasing the fixed part of the salary. Moreover, they are a **powerful way to retain human resources (PDF)** deemed indispensable for the company's survival and to link wage increases to the results of the organisation.

Positive future perspectives

Looking to the future, the limited existing information suggests that the use of supplementary reward systems is going to increase, especially in the context of economic recovery and particularly in the private sector. For instance, a recent study by the Confederation of Finnish Industries suggests that these reward systems are likely to continue to form a **relatively significant part of wages in the future**. A UK report by the Chartered Institute for Personnel and Development, based on recent trends, suggests that **this increase could involve qualitative changes (PDF)**, moving from individual performance-driven incentives to a more multilayered concept of performance, which might be largely contingent on strong overall organisation performance.

Several reasons are suggested from the employer perspective for the likely increase in supplementary rewards, such as organisations' growing need for more flexibility and a strengthened connection between pay and enhancing business performance. Employers also need to increase their attractiveness and differentiation, especially in the context of an ageing population, shortages of professionals, fewer potential workers, and a requirement for higher skills or qualifications (Slomczewska-Klimiuk, 2014).

From the perspective of employees, there is also increasing interest in supplementary pay systems on top of wages, especially among highly skilled workers. For instance, a Lithuanian study identified that **highly qualified job applicants are increasingly asking about the availability of incentive schemes** (for example, supplementary insurance and health promotion programmes) at job interviews.

However, it is not clear whether these forms of payment will be welcomed by other groups of workers and their representatives (see the section 'Position of national social partners' at the end of this chapter for further discussion on this question). In some countries, they may be seen as a way for managers to reassert control in a context of lower or stagnant fixed-salary levels, increasing job insecurity and high unemployment levels. Finally, it is worth emphasising the key role of both the power balance between the social partners (including union density and collective bargaining coverage) and public incentives (for example, tax rebates) in making these forms of payment more attractive, for both employers and employees.

Part B: Regulatory framework

National regulations

The regulation of supplementary reward systems is a mixture of conditions set in labour codes and other regulations such as tax provisions and terms agreed in collective agreements. As a rule, terms and conditions included in national labour codes or employment legislation set general parameters (for example, basic definitions, minimum rights and obligations) or give options to be further decided by social dialogue.

The scope of legal regulations can depend on the role traditionally played by social dialogue in each country and the leeway left to social partners. In a few countries, including Cyprus, Denmark and Estonia, there are no relevant laws or regulations relating to remuneration. All other countries have regulated the tax treatment and the determination of social security contributions of supplementary reward systems in some way.

Table 15 gives examples of the different types of regulatory approach used in different European countries.

Table 15: National regulatory approaches

Type of regulatory approach	Examples of countries
Supplementary employee reward systems are not specifically regulated	Belgium, Finland, Germany, Ireland, Luxembourg, Malta, Sweden, UK
Labour codes and other laws include some contents related to pay	Croatia, Latvia, Lithuania, Netherlands, Norway, Portugal, Spain
Supplementary employee reward systems are regulated by existing legislation	Austria, Bulgaria, France, Italy, Romania, Slovenia

Source: *National reports*

Countries where supplementary reward systems are not specifically regulated

In several countries, remuneration forms are not specifically regulated and therefore social partners and companies are free to operate (within the legislative employment framework). This is the case in Malta, Ireland and the UK.

Furthermore, there are many examples of countries where the regulation of supplementary reward systems takes place via social dialogue (in collective bargaining at sector or company level) or even in the individual employment contract, while national legislation provides only fiscal regulations. In Finland, pay is a relatively minor subject in the labour legislation, as most pay-related issues are dealt with in collective agreements. However, the subject is covered in the **Act on Income Taxation (1535/1992)**. In Luxembourg, legislation on variable pay is also quite scarce, with the exception of tax legislation. Similarly, the Swedish Labour Code does not say anything about forms of pay, which are only regulated in collective agreements. Regulations that do exist concern mainly **how different benefits should be taxed**. In Belgium and Germany, remuneration rules are normally laid down in collective agreements or individual employment contracts.

Countries where labour codes or other laws include basic contents on pay

In Croatia, the Labour Act defines the obligation of the employer to assign the worker a job and to provide pay for the work carried out. The amount of wages, salaries and other receipts are determined by special laws, collective agreements and the individual labour contract, whereas other legal details are provided by the Law on Contributions (*Zakon o doprinosima*) and the Ordinance on Income Tax (*Pravilnik o porezu na dohodak*).

In the Netherlands, the Civil Code contains the definition of a wage and establishes that the employee has the right to detailed financial information from the company's accounts when the wage is dependent on the financial results of the company. In Finland, the **Employment Contracts Act** decrees that the employer must give the employee a calculation showing the amount of pay and the grounds for its determination.

In Norway, there is very little legal regulation on pay in general. Pay is regarded principally as a matter between employer and employee, either individually or through the social partners. However, Norwegian labour law establishes that the organisation of work, including remuneration systems and PRP, must not expose employees to harmful physical or psychological strain. It also states that all forms of remuneration must be specified in the written contract of employment.

In Portugal, the Labour Code (**Law 7/2009 of 12 February**) establishes a number of general but important principles, for example: ‘Remuneration comprises the base wage and any other regular payments in cash or in kind’ and ‘Remuneration can be fixed, variable or a mix of the two, with no limits to the proportion of each’. Otherwise, the regulation of remuneration forms is left for collective bargaining.

In Spain, the **Workers’ Statute** determines all legal requirements affecting salary configuration. For instance, it establishes that it is compulsory to distinguish between ‘base salary’ and ‘salary supplements’. It leaves considerable scope for the parties to negotiate, so social dialogue is the main source for determining salary structure.

In Latvia and Lithuania, the labour laws do not contain special provisions regarding variable pay and remuneration, but general wage-setting procedures are regulated. In Latvia, the labour law regulates supplements for additional work associated with special risks or night work, for example, and obliges the employer to organise a salary system that conforms to regulatory enactments and the collective agreement.

Countries that specifically regulate supplementary employee reward systems

In Slovenia, variable remuneration and rewards are in general determined in the Employment Relations Act (*Zakon o delovnih razmerjih*), while detailed definitions of different types of variable forms of remuneration are left to negotiations between social partners at sector and company levels. According to this Act, both payment for employee performance and additional payments and remuneration for business performance are regarded as types of variable payment.

In Bulgaria, the forms of variable pay and remuneration (basically variable PRP and wages and salaries in kind) are regulated by the **Labour Code**. The **Ordinance on the structure and organisation of salaries** defines the nature of remunerations and rewards, and it states that remunerations and rewards can be determined by the collective agreement, internal rules on salaries or the individual employment contract.

In Romania, the Labour Code (**Law 53/2003**) defines what salary is. In addition, **Government Decision no. 791/2010** regulates the taxation of meal vouchers, while Law No. 142/1998 on meal tickets (amended by Law 291/2013 and Order 1069/2015) determines the index-linked nominal value of one meal ticket. Law 94/2014 (modified by Law 173/2015) regulates the conditions for granting holiday vouchers by employer category.

In Italy, the provision of variable pay schemes is set out in Article 2099 of the Italian Civil Code. This establishes that the pay level is set (wholly or in part) according to one of the following: hourly rate, piece rate, profit- or product-sharing, commission fees or benefits in kind.

In Austria, some variable forms of remuneration are covered, to a limited extent, in various employment regulations. For instance, regulations on commissions and profit-sharing can be found in the White Collar Workers Act (*Angestelltenengesetz*); no regulations on commissions and profit-sharing are in place for blue collar workers. Additional legal provisions for PRP (*Leistungsentgelt*) are found in several further laws: the Employment Contract Law Adaptation Act (*Arbeitsvertragsrechts-Anpassungsgesetz*), concerning benefits deriving from employees’ shareholdings towards the assessment basis of continued remuneration (for example, in case of sickness); the General Civil Code (*Allgemeines Bürgerliches Gesetzbuch*), with a general clause stating that any agreement that is against the law or considered immoral is void; and the Works Constitution Act (*Arbeitsverfassungsgesetz*).

Limits on payments in kind

In some countries, national regulations set limits on payments in kind. For instance, in Spain, the Workers' Statute states that both monetary and in-kind benefits are part of the salary, but that the in-kind element should not be higher than 30% of the total, nor cause the monetary element to be below the legal minimum interprofessional salary.

In Poland, the Labour Code states that the wage payment must have a monetary form and be provided at least monthly. It also states that only part of a wage can be paid in other forms, such as allowances in kind, provided that collective agreements or labour law allows such an option. In Greece, labour law also allows partial payment of wages in kind, and fiscal legislation in the Netherlands permits employers to provide 1.2% of the wage in non-monetary form (the so-called *werkkostenregeling*).

Specific regulations for the public sector

Some countries have specific Acts that regulate variable pay for civil servants or for workers in companies where the state is a major shareholder. For instance, in Estonia, the **Civil Service Act** defines variable salary (*muutuvpalk*) and states that variable pay for officials in state and local government authorities can form up to 20% of the basic salary.

In Slovenia, according to the Employment Relations Act, 5% of the annual amount for basic salaries in the public sector should be assigned for the reward of job performance. This new salary system was introduced in the Public Sector Act in 2005 and aims to promote new forms of wage determination.

In Finland, a **2012 position paper by the Ministerial Committee on Economic Policy** established the limit of performance-based rewards at 120% of the person's fixed salary for companies where the state is the sole or major shareholder.

In Bulgaria, and particularly concerning civil servants, the amount of remuneration for performance cannot exceed 80% of an employee's gross wage accrued for the year in basic pay, according to Article 107a of the Labour Code.

Legal provisions for specific reward systems

In some countries where supplementary forms of remuneration in general are not regulated, there are particular laws designed to regulate some specific forms of reward, such as financial participation, saving systems for employees or social funds. For example, Belgian legislation only regulates **non-recurring results-related benefits** and **financial participation**. The regulation of these benefits was introduced in 2008 and created the possibility of awarding an extra bonus to employees where clearly pre-defined targets are met (**Collective Agreement 90**).

Legislation in Ireland only regulates financial participation schemes. The Irish government entered the field of financial employee participation with the Finance Act of 1982, which was intended to encourage the voluntary and widespread adoption of share-based profit-sharing.

In Finland, the **Act on Personnel Funds (943/2010)** decrees that personnel funds are a company profit-savings method. Personnel funds are founded and run by employees, in agreement with the company. They administer and invest profits distributed by the company to employees, who can withdraw up to a certain amount per year.

In Germany, the Employee Financial Participation Act (**Mitarbeiterkapitalbeteiligungsgesetz**) was introduced in 2009 to increase **employees' financial participation in their companies' ownership and profits**. Government-subsidised employee savings (*Arbeitnehmersparzulage*) are topped up by €80 when they are used by employees to buy company shares. The employers' threshold for tax and social security contributions for staff receiving non-cash benefits in the form of company shares has been raised from €135 to €360 annually.

In Slovenia, the Act on Employee Participation in Profit (ZUDDob) was passed in 2008. According to Slovenian trade unions, the law had some shortcomings, the biggest being that the profit-sharing is not mandatory and consequently only a small number of companies have decided to distribute profits.

In France, there are two main types of employee saving schemes: PEE, which is collectively organised and provides tax incentives for workers to save money, and Perco, in which funds are blocked until the employee retires. A 2013 reform introduced the principle that all collective saving agreements should offer Perco as a way to save additional funds for retirement. Since a 2001 reform, it is possible to organise sectoral or regional inter-company schemes, designed to decrease administrative costs and to make PEE more attractive for SMEs. Profit-sharing schemes are tightly regulated in France, as described in Box 1.

Box 1: Regulation of profit-sharing schemes, France

According to French law (**Labour Code, Article L. 3322_2**), companies that have at least 50 employees and are making sufficient profit must distribute some of their profits. Social partners at company level are encouraged to conclude a **collective agreement that regulates the distribution**. If no agreement is concluded, a standard scheme applies. Since a 2008 reform, employees can choose whether they want to receive the bonus in cash at the end of the year or to place the money in an employee saving scheme, which is generally accessible only after five years. Usually, half the annual profit-sharing bonus is automatically transferred to a Perco account (saving scheme for retirement) if the employee does not state otherwise.

In Poland, the Company Social Benefits Fund is also regulated by law. The fund is financed from annual deductions, and its main function is to subsidise social assistance for employees and certain family members. Every company employing at least 20 full-time workers must establish such a fund, unless the collective agreement provides otherwise.

In Luxembourg, supplementary pension schemes may be set up by employers, but they must respect the provisions of the **legislation of supplementary pension schemes of 8 June 1999 (PDF)**.

Legislation to control bonus payments

An important change in several countries in Europe is the introduction of stricter rules for bonus payments and other additional benefits paid in the financial services sector. These rules are designed to safeguard the financial stability of the banking system and were introduced particularly as a consequence of the economic crisis.

For instance, the Swedish Financial Supervisory Board (*Finansinspektionen*) **introduced new regulations in 2011**, with the purpose of reducing excessive risk-taking in the sector. Rules include specific demands for companies to adapt remuneration systems to risks (for example, rules on result evaluation and risk adjustment as well as postponed variable pay) as it was estimated that variable pay, bonuses in particular, had led to harmful levels of risk-taking.

Similarly, in the UK, a 2009 report by the Financial Services Authority deemed that **remuneration practices were a contributory factor to the market crisis (PDF)** and a range of measures have since been introduced. Specifically, the **Financial Services Act** (which came into operation on 1 April 2013) set out fundamental changes to the way in which financial services companies such as banks are regulated. In June 2015, the Financial Conduct Authority published its remuneration codes, designed to:

- ensure greater alignment between risk and individual reward;
- discourage excessive risk-taking and short-termism;

- encourage more effective risk management;
- support positive behaviours and a strong and appropriate culture of conduct within companies.

The federal government in Germany decided in 2010 to introduce stricter rules for bonus payments and other benefits paid in the financial services sector. The new regulations defined remuneration systems as reasonable when they avoid offering incentives for management and employees to take excessive risks and when the remuneration system is adequately monitored. Moreover, variable pay elements should serve only as an incentive for managers or employees and are not allowed to exceed 100% of the fixed remuneration.

In Luxembourg, the Financial Sector Supervisory Commission (*Commission de Surveillance du Secteur Financier*), a public institution that supervises professionals and products in the financial sector, introduced new regulations in 2010 and 2011 (**circulars 10/437 and 10/497** and **10/496 and 11/505**), strengthening legislation on variable pay in the banking sector. One of the main measures was the introduction of upper limits for bonus payments (100% of non-variable remuneration).

Similarly, in the Netherlands, new legislation (known as WNT I and WNT II, from 2014 and 2015) contains restrictive clauses on bonuses, mainly for the financial sector and the public and not-for-profit sectors. For the financial sector, the bonus cap is 20% of fixed salary. This legislation covers top management and some higher officials, but not average employees.

In Finland, **parliament debated curbing directors' rewards** in February 2014, but there are no signs that the current government will take further action on the issue. In Spain, the National Stock Market Commission published a **good governance code for listed companies (PDF)**, which includes recommendations to promote good practice, but these do not have the force of regulation. Among other issues, it states that bonuses paid to high-level managers and administrators should be related to specific objectives and should be compatible with the long-term sustainability of the company.

Measures to encourage supplementary reward systems

In many countries, supplementary employee reward systems are supported or incentivised through favourable tax treatment or reduced social security contributions, as shown in Table 16.

Table 16: Measures to encourage supplementary reward systems

	Advantageous tax treatment			Reduced social security contributions		
	Payment in kind	Supplementary social security contributions	Financial participation	Payment in kind	Supplementary social security contributions	Financial participation
Austria	X		X			
Belgium	X			X		X
Czech Republic	X	X			X	
Finland	X					
France		X	X	X		
Germany			X			X
Greece	X			X		
Hungary	X					
Italy	X	X	X	X		X
Latvia		X			X	
Lithuania		X				

	Advantageous tax treatment			Reduced social security contributions		
	Payment in kind	Supplementary social security contributions	Financial participation	Payment in kind	Supplementary social security contributions	Financial participation
Malta	X	X				
Norway	X	X				
Poland	X	X				
Portugal	X		X	X		X
Slovakia	X			X		
Spain	X					
Sweden	X					

Source: Authors' elaboration based on national reports

Advantageous tax treatment

Table 16 shows that, in general, advantageous tax treatment of salaries in kind is the most widespread measure for encouraging supplementary reward systems. Many countries have favourable tax regimes for benefits such as meals, childcare facilities, health insurance and transport costs. In most of these countries, only certain forms of salary in kind qualify for tax exemptions or reductions, while other types are considered as regular income. There are a few countries, including Estonia, where this favourable treatment does not exist, and the same tax rate applies to income received both in cash and in kind.

Box 2: Favourable tax regime in Austria

In Austria, as a rule, payment in kind (*Sachleistungen*) is considered a remuneration component when determining the calculation of income tax. However, certain remunerations are exempt from income tax, for example:

- employer's contributions towards childcare (up to €500 per child per year);
- food (up to €4.40 per day for meals or €1.10 per day for other food products);
- employer contributions towards voluntary life, accident or health insurance (up to €300 per year);
- gifts for employees (up to €186 per employee per year);
- company events or outings (up to €365 per employee per year).

The use of company facilities (for example, company childcare or sports facilities) is also tax-free, as is the company's provision of drinks in the workplace (free or at reduced costs), as well as specific sector-related provisions such as free beer in breweries, free cigarettes in tobacco companies and free or reduced-cost travel in transport companies.

In Finland, the following benefits provided or arranged by the employer are generally non-taxable when available to the entire staff and at a reasonable level: healthcare, personnel discounts, non-monetary gifts, recreational activities, shared transport to the workplace, and business travel allowances. The Finnish tax administration estimates the real value of benefits annually, and these are tax-free to a 'customary and reasonable' extent, the definition of which varies between benefits.

In Hungary, preferential taxation is applied to the Cafeteria system. In Norway, benefits exempt from taxation under certain conditions include gym facilities or membership, work clothes, kindergarten, company health service, canteen and food, parking, short trips, parties, physiotherapy, staff discounts and certain gifts. In Portugal, according to the **Personal Income Tax Code** (*Código do Imposto sobre o Rendimento das Pessoas Singulares*), some forms of variable pay, including meal allowances, public transport passes, health insurance and compensation for the use of the employee's own car, are exempt from taxation as long as they do not exceed certain limits. In Sweden, per-diem allowances and mileage reimbursements are examples of tax-exempt remunerations, as are some health and staff welfare benefits such as refreshments, excursions and fitness activities.

In addition, in some countries there are also tax advantages concerning supplementary pensions. This is the case in the Czech Republic, where employers' contributions to supplementary pension insurance or life insurance schemes are not subject to income tax and are tax-deductible for the employer (up to a limit). Also, in France, employee saving schemes provide tax incentives for workers to save money. In Italy, supplementary insurance schemes – for example, health, life, non-occupational accident, or death and invalidity insurance – are exempt from taxation up to €258.23.

Favourable tax regimes for financial participation schemes seem to be less common compared with advantageous regimes for salaries in kind and supplementary pensions, although they do exist in some countries. For example, in Austria and France, profit-sharing is treated favourably in terms of taxation. In Italy, Law No. 221 of 17 December 2012 established taxation and social contributions relief if the remuneration received by workers employed in innovative start-ups is paid through financial instruments (for example, shares, equity financial instruments or bonds).

Reduced social security contributions

In addition to advantageous tax regimes, some countries offer reduced social security contributions, as the following examples show.

- In Belgium, total wage costs for the employer (inclusive of taxes and social security contributions) are lower when part of the wage is replaced by fringe benefits or payments in kind.
- In France, luncheon vouchers are provided by the employer and can be redeemed to buy a meal in a restaurant or supermarket. The company has to cover between 50% and 60 % of the costs; the rest is deducted from the employee's salary. Vouchers are exempt from social security contributions for an amount up to €5.36 of the employer's share (that is, a total voucher value of €10.72 if the employer covers 50% or €8.93 if the employer covers 60%).
- In Greece, allowances in kind that are freely granted to employees by their employer by way of donation are not classed as regular pay and so are not subject to social security or other deductions.
- In Italy, the Consolidated Law on Direct Taxation (Law 22 December 1986, No. 917), updated in 2014, sets out certain elements that are exempt from contributions and taxation, including meal vouchers (up to €5 or €7 if in electronic format), collective transport services and nursery provision.
- In Portugal, according to the **Code for Social Security Contributory Schemes (PDF)**, allowances for family expenses (such as crèches, schools or care homes), meals in the workplace, health insurance and discounts on the purchase of shares from the company are not included in remuneration when calculating social security contributions.
- In Latvia, the **Law on Social Insurance** states that mandatory social security contributions do not include contributions made by an employer in favour of an employee to private pension funds, paid amounts of life assurance (with accumulation of funds), or premiums and paid amounts of life, health or accident insurance premiums (without accumulation of funds).
- In Belgium, share options do not entail social security contribution as long as they meet some specific conditions.

Recent changes

Some countries, particularly those with public budgets under great pressure, have recently reduced favourable tax and social security measures to raise tax revenues. The negative economic situation and public deficit concerns in many European countries seem to be behind this trend.

- In Portugal, the Code for Social Security Contributory Schemes introduced some changes in 2011, expanding the types of remuneration counted for social security contributions to cover elements such as travel allowances and use of a company car.
- Similarly, in Spain, the **Royal Decree Act 16/2013** established that certain benefits in kind, including transport allowances, medical insurance and meal vouchers, should now be counted for the estimation of the social security quota, meaning that employers and employees with in-kind payments must pay higher contributions.
- In the Netherlands, the Minimum Wage Act, implemented in 2015, contains a new Article 13, which restricts the scope for employers to deduct costs for items such as housing, travel and sickness insurance.
- In Ireland, tax incentives related to financial participation for companies and private individuals were scrapped in the 2011 budget due to the economic crisis; previously, there had been a favourable legal framework, with a relatively high number of financial participation schemes.
- In Greece, several laws were approved in 2013 that set higher taxes for profit-sharing and extraordinary bonuses. Law 4172/2013, for example, radically changed the taxation of salaries, bonuses and allowances in kind of directors and board members of public limited companies, as bonuses are now considered income from paid employment.
- In Hungary, there have been many changes in the last 5–10 years, including dramatically cutting the tax-free benefits of the Cafeteria system in 2010.
- In Poland, deductions for the Company Social Benefits Fund were frozen in 2012. This anti-crisis measure has been **criticised by trade unions** for its negative impact on the social security of employees.

In contrast, a few countries have seen positive trends. This is the case in Belgium, where, based on the success of luncheon vouchers (launched in 1969), the system was enlarged to other areas. With the Interprofessional Agreement 2009–2010, the **eco-voucher** was launched; eco-vouchers can be used for environmentally friendly products or services and can increase real wages without increasing tax or social contributions. At the beginning of 2013, in the Czech Republic, the maximum employer contribution to employee supplementary pension insurance or life insurance schemes that, for the employee, is not subject to income tax or health and social insurance deductions and which, for the employer, is tax deductible was increased from the original €889 to €1,111 per employee; the aim of the change was to strengthen employer motivation to increase the level of such contributions to their employees. Also, in Germany, **the employers' threshold for tax and social security contributions** for staff receiving non-cash benefits in the form of company shares was raised from €135 to €360 per year.

Looking to the future, it is likely that legal changes will be introduced in Portugal to allow taxation for all forms of remuneration, given the continuing rise of public debt. In Lithuania, a draft law on corporate social initiatives was being discussed in 2015, aimed at encouraging organisations to launch various social initiatives, such as enhancing employee motivation to lead a healthy lifestyle, via tax privileges. In addition, supportive tax schemes were being considered in Austria as part of the coalition government's work programme (2013–2018), particularly concerning the implementation of a favourable tax treatment for employee profit-sharing.

Part C: Collective agreements and views of social partners

Integration of supplementary reward systems in collective agreements

The degree of integration of supplementary reward systems in collective agreements is highly influenced by the role of collective bargaining in each country, as well as by the type of reward scheme used and the existence of legislation. For example, in Belgium, the general conditions applying to fringe benefits are regulated by national legislation, but within this legislative framework, further details are collectively bargained at intersectoral, sectoral or company level. In Poland, the Labour Code requires that any additional form of wage payment besides the monetary one must be provided for by the collective agreement. Table 17 identifies three main groups of countries in terms of how reward systems interact with collective agreements.

Table 17: Supplementary employee reward systems and collective agreements

Interaction with collective agreements	Examples of countries where present
Not normally part of collective agreements	Croatia, Estonia, Greece
Mainly agreed at company level	Finland, Ireland, Latvia, Malta, Norway, Poland, Slovakia, Spain, Sweden
Normally part of sectoral collective agreements	Austria, Denmark, France, Germany, Romania

Source: *National reports*

Supplementary reward systems not part of collective agreements

In a number of countries, supplementary reward systems do not normally appear in collective agreements, mainly due to the general social dialogue framework. In Estonia, for example, there is very low integration of these reward systems in collective agreements. One of the main reasons for this is the country's relatively weak unionisation. In Greece, the economic crisis and the related measures introduced have led to a weakening of the trade union movement. In this context, the issues taking precedence in social dialogue are maintaining the role and value of collective agreements, with limited focus on additional remunerations or on linking pay and productivity. In Croatia, although these forms of remuneration could be determined in collective agreements, this rarely happens in practice.

Supplementary reward systems agreed at company level

In some other countries, employee reward systems are mainly established at company level, either because sectoral collective agreements only provide for very generic or minimum conditions, or because agreements at sectoral level are practically non-existent. For instance, in Finland and Sweden, employee reward systems are mostly decided in workplaces, at the company level or lower, and rarely included in sectoral agreements. In the Norwegian private sector (which operates a two-tier multi-employer bargaining system), most sectoral agreements are about minimum wages, leaving room for local wage bargaining, which often includes variable pay systems (Barth et al, 2015).

Box 3: Healthcare sector agreement, Norway

An interesting example in the Norwegian public sector is the agreement between the Norwegian Nurses' Association (NSF) and the employer organisation SPEKTER. This specifies that individual-level PRP may be given in addition to the minimum wage, based on tasks, competence and experience. Levels and other relevant criteria are subject to local negotiations. This is common in Norway, which has a two-tier bargaining system in which pay is negotiated first at sector level and then at local or company level.

Another example is the case of Malta, where **sectoral collective bargaining is absent (PDF)**. In the Maltese private sector, collective bargaining **typically occurs at a micro-enterprise level**. Additionally, remuneration conditions may also be subject to an informal system in which they are granted in a discretionary manner (Greenland, 2011).

In many private sector organisations in Ireland, most forms of variable pay and reward are not covered by collective agreements at any level, as union density and collective bargaining have declined since the beginning of the crisis. Thus, individualised forms of bargaining have gained ground and individual employers have extensive scope to introduce their own specific variable pay arrangements.

In Spain, a report published by the General Workers' Union (UGT) in 2014, concluded that **formulas linking company results and salary increases were more frequent in collective agreements at company level (PDF)** than in sectoral or regional agreements. In Latvia and Slovakia, employee reward systems are subject to collective bargaining at company level. In the case of Slovakia, they concern mainly the private sector and particularly large companies. Research conducted in Slovakia shows that the economic situation of the company is an important factor influencing the implementation of non-standard remuneration: when the economic situation improves, employers use these forms of remuneration to motivate employees. In Latvia, it is reported that in post-crisis periods, enterprises not only increase salaries but also apply award systems. In Poland, sectoral collective bargaining plays a relatively insignificant role, especially for privately owned companies, since only 17% of employees in Poland are members of trade unions. Thus, collective agreements are predominantly agreed at company level, and most Polish companies set workplace regulations internally.

Supplementary reward systems integrated in collective agreements

There are many examples of countries where employee reward systems are an integral part of collective bargaining at sector level. In these cases, conditions arranged for the whole sector are usually further developed in company-level agreements.

In France, variable pay is very often included in collective agreements at both sector and company level (although there are legal incentives in France to conclude agreements on these issues). In Romania, almost all collective agreements, at sector level or among groups of companies, have a chapter on remuneration that specifies the most common forms of variable pay (for example, luncheon and holiday vouchers). Most companies subsequently integrate some forms of variable payment at company level.

Box 4: Collective agreement in the chemical sector, Italy

The national-level collective agreement in the chemical sector in Italy establishes the creation of 'participation bonuses' based on a company's economic performance. Work councils (*rappresentanze sindacali unitarie*) in each production unit establish the details of the participation bonus, based on agreed targets and programmes related to productivity and economic performance. During the negotiation, the parties look at the situation of the company and workers, as well as assessing development prospects and competitiveness and profitability conditions.

In Austria and Germany, variable pay is part of collective agreements at the sector and company levels. In Austria, in particular, certain forms of variable pay such as commissions in the retail sector or piece rates in the metalworking sector are fairly widespread, and collective agreements in a variety of sectors include specific clauses on these types of pay. In Denmark, variable pay is also part of collective bargaining, although the extent of integration of PRP varies depending on the sector. For instance, in the manufacturing sector, a controlled system of PRP through collective bargaining is prevalent, whereas in abattoirs, all pay is based on piecework contracts. Another interesting Danish form of variable pay included in collective agreements is the Plus Pay (*PlusLøn*) system, composed of four elements: basic pay, pay by qualification, pay by function, and pay by results. An identical pay system was introduced by collective bargaining in the public sector at the end of the 1990s called New Pay (now called Local Pay), but it was met with scepticism by employees.

Types of reward systems included in collective bargaining

Information from some countries provides further details about which types of employee reward systems are typically integrated in collective bargaining at sector and company levels. For instance, in Portugal, the forms typically considered in sectoral agreements are food-related payments (for example, meal allowances or meals supplied by the employer for free) and seniority allowances, whereas the forms more typically settled at company level as a result of negotiation with workers' representatives are in-kind payments, attendance rewards, productivity or merit-related rewards, and profit-sharing schemes.

Box 5: Credit institutions' collective agreement, Portugal

The collective agreement between several credit institutions and the National Federation of the Finance Sector (FEBASE) (**Boletim do Trabalho e Emprego, 29 February 2012 (PDF)**) establishes promotions on the basis of seniority and merit, meal allowances, seniority rewards and bonuses, travel allowances, study allowances (including the payment of tuition), children's allowances, housing loans at favourable interest rates, and supplementary social security schemes including disability, illness and retirement benefits. In addition, employers and workers' representatives are free to negotiate the definition of particular aspects in greater detail.

In Italy, collective bargaining plays a fundamental role in the identification of supplementary social protection schemes, which are normally established at sector level. Bargaining at company level commonly discusses variable pay schemes, identifying the criteria and rules to be applied.

In Bulgaria, collective agreements more often refer to some forms of variable pay, such as allowances and supplementary social contributions, than bonuses and piece rates. In the Czech Republic, the benefits most commonly provided for in collective agreements include employer contributions to corporate canteens, supplementary pension contributions, and the formation and drawing of benefits from social funds. Additionally, collective agreements in the private sector include commitments related to the provision of specific variable forms of pay such as the 13th or even 14th monthly salary, incentive salary components (bonuses, performance rewards and team rewards), and benefits and bonuses paid on work and life anniversaries.

Box 6: Public water services collective agreement, Romania

Companies in the Romanian public water services sector use multiple forms of variable pay, as stipulated in Collective Agreement 1768 of 9 December 2013. These employee reward systems include luncheon vouchers and gift vouchers. In addition, employees receive money on special occasions during the year, for example, at Christmas and Easter.

It is also worth highlighting the remuneration forms that are not generally included in collective agreements. For instance, in Norway, bonuses, stock options and profit-sharing are seldom covered by central or local collective agreements, and are largely viewed purely as management tools. In Denmark, payment by results is almost absent from collective bargaining, but has some relevance among top executives as a supplement to a fixed wage. In Cyprus, according to the Employers' and Industrialists' Federation (OEB), extra remunerations are traditionally set outside the framework of collective bargaining; indeed, they are to a large extent viewed as a managerial prerogative.

Box 7: Cafeteria system at MAV Hungarian Railway Company

The Cafeteria system has been operating at MAV Hungarian Railway Company since 2004 and is an annex within the collective agreement. The system is open to all employees except some managers at the highest level (such as the chief executive officer). Both the total sum of the benefits and the benefits available are part of the collective bargaining at the company. The agreement includes the exact amount for each employee per year, the list of elements, the rules applying to different elements and the rules to be applied following dismissal.

National examples of supplementary rewards in collective agreements

National sources provide some interesting statistical data on the integration of employee reward systems in collective agreements.

In Latvia, data from the annual survey conducted by the Free Trade Union Confederation (LBAS)³ show that in 2014, out of a total of 1,339 agreements, 120 agreements included clauses on premiums and benefits in kind (paid phone bills, transport, lunch, additional medical services, health insurance, additional pension and so on).

In the Netherlands, the Labour Inspectorate (Inspectorate SZW) publishes an annual report on the incidence of variable pay arrangements in collective agreements and on supplementary social security schemes (sickness, unemployment and occupational pensions). The 2015 report (covering 2014) shows that, from a sample of 100 agreements (covering the vast majority of Dutch employees), 72 agreements contained provisions on variable remuneration (covering 65% of Dutch employees or 3.3 million people). Part of these arrangements pertain to permanent forms of remuneration such as the 13th-month payment and end-of-year bonus. In 26 agreements, there were provisions on PRP.

In the Czech Republic, 13th-month payments were included in 43% of collective agreements (557 in total) and 14th-month payments were included in 15% (194 agreements) of a total of 1,285 collective agreements surveyed in the private sector in 2014. Rules concerning the provision of an incentive salary component were included in 689 collective agreements (that is, 54% of the sample).

Finally, according to a [study published by Estonian Ministry of Social Affairs \(PDF\)](#), 35% of public sector and 7% of private sector employees in 2011 were covered by a company-level collective agreement. Of all the collective agreements in force, 39% featured a stipulation about performance-related variable pay (no distinction between public and private sector agreements was made).

³ The survey is based on voluntary participation and it is not official

Box 8: Agreement signed by Repsol Group, Spain

The framework agreement signed in 2014 by the Repsol Group in Spain defines ‘variable remuneration based on objectives’. In particular, it says that variable remuneration will represent a maximum of 2.5% of the company’s total salary costs each year. If the company’s results reach a certain level, this percentage will increase by 0.5% (up to 3%). Moreover, the agreement specifies that the company management will fully explain the objectives determined for each group of workers to the monitoring commission, where workers’ representatives will discuss these objectives if necessary. It also explains the schedule and the system for monitoring objectives.

Position of national social partners*Employers*

Enhanced motivation and flexibility: On the whole, employer organisations are mostly in favour of employee reward systems. The opinion that performance-based pay increases employees’ motivation, and thus company productivity, is held in most countries (including Austria, Croatia, Greece, Ireland, Italy, Latvia, the Netherlands, Norway, Portugal and Slovenia). In the UK, the Confederation of British Industry (CBI) is **broadly supportive of PRP (PDF)**.

Information from Denmark shows that employer organisations think that payment by results creates motivated employees and enhances the overall flexibility of companies in dealing with changing markets. Similarly, in Sweden, Almega, an employer and trade organisation for the service sector, has long been a proponent of performance-based pay as it increases opportunities for employees to earn more, thus making the company an attractive place to work. Similarly, the Confederation of Portuguese Industry (CIP), the Portuguese Trade and Services Confederation (CCP) and the Confederation of Portuguese Tourism (CTP) favour variable remuneration, so that each company can decide its own remuneration policy as much as possible according to its needs and market factors.

Tax and social security advantages: In addition to strengthening motivation, productivity and adaptability, employers’ representatives also highlight the financial advantages of employee reward systems.

- In Romania, employers state that they adopt supplementary reward systems for two main reasons: the financial benefits (social expenses, meal vouchers and voluntary health insurance premiums are tax-deductible) and enhancing employees’ loyalty and motivation.
- In Germany, the German Confederation of Employers’ Associations (BDA) cites the following advantages of employee financial participation schemes: they are exempt from taxes; they can serve as a tool to increase workers’ motivation and identification with their company; they encourage entrepreneurial thinking and behaviour; and they can be used by companies to increase their equity capital.
- In Italy, two of the biggest employer organisations – the Italian General Confederation of Italian Industry (Confindustria) and the Italian General Confederation of Trade, Tourism and Services (Confcommercio) – are in favour of variable pay schemes, emphasising the combination of social contributions and tax incentives.
- In Belgium, the employers’ view is that supplementary rewards can reduce wage costs as limited social security contributions and taxes are due on fringe benefits.

Trade unions

Positive opinions: According to the national information gathered for this study, unions generally have a positive opinion of supplementary reward systems.

- In Portugal, benefits that are applied regularly in a particular company or sector regardless of individual performance – for example, meal or travel allowances – are viewed positively by both unions and employer organisations.
- Similarly, in Malta, the General Workers' Union (GWU) wholly supports the use of fringe benefits such as health and life insurance, and argues that such benefits are highly valued in certain sectors.
- In Romania, employees are in favour of employee reward systems – for example, meal vouchers and voluntary health insurance premiums – because they normally represent a significant increase in wages.
- In the Netherlands, complementary social benefits, such as additional payments for sickness or disability and unemployment benefits, are very much embedded in the system, and unions defend workers' advantages in this area.
- In Hungary, unions such as Democratic League of Independent Trade Unions (LIGA) are fighting against the government's intention to raise the tax on the popular Cafeteria system of flexible benefits in an attempt to keep the current advantageous conditions.

Criticisms: Unions distrust performance-based pay systems, mainly because they could cause injustice and discrimination or result in other negative outcomes, particularly if they work at an individual rather than a collective level.

In Austria, **organised labour opposes further flexibilisation of wages**, arguing that variable pay systems could cause pressure, stress and even health risks, and that they could lead to less productive, older employees being exchanged for young, highly motivated workers.

Similarly, in Portugal, the General Confederation of Portuguese Workers (CGTP-IN) favours fixed or stable remuneration forms, criticising or distrusting the implications of performance-based remuneration such as patterns of excessive work, competition between workers and the deterrence of collective action.

In the UK, unions tend to be opposed to incentive schemes due to lack of transparency. The UK government published **advice for schools on setting up variable pay systems**, but the National Association of Schoolmasters and Union of Women Teachers (NASUWT) opposed this on the basis that it promotes potentially unfair and discriminatory remuneration.

In Estonia, the State and Local Government Workers' Trade Union (ROTAL) is strictly opposed to a variable pay system for officials because, in most cases, it is not possible to objectively measure performance.

In Malta, the emphasis is typically on the **design, implementation and administration of the reward and remuneration systems**. Thus, the GWU highlights the importance of consultation with employees prior to the implementation of these systems.

Therefore, fairness and equal inclusion of all workers, as well as discussion and agreement with their representatives, are essential if trade unions are to accept these schemes. In Finland, labour unions demand that reward systems are open, well justified and egalitarian. They also have a strong preference for remuneration systems that incorporate all employees. In Denmark, unions are divided about the use of payment by results. In sectors such as manufacturing, where

a controlled system of PRP through collective bargaining is prevalent, employees are in general not opposed to it. However, there are sectors where unions are not satisfied with some piece-work systems, which are considered stressful and unfair.

Similarly, in Sweden, opinions are divided. One study on collective bargaining suggests that bonus schemes are generally regarded by trade unions as positive, provided they are based on the results of groups of workers. However, variable pay based on the results of individual workers has been **regarded with strong scepticism among blue collar unions (PDF)**. Similarly, in Ireland and Norway, unions seem to have a strong preference for arrangements that are all-inclusive and that pay the same sum to all employees covered but are generally sceptical of systems based on individual performance.

Views on linking wages and productivity: The economic situation of the country may have an influence on the openness or readiness of trade unions to accept supplementary reward systems. For instance, in Spain, the issue of variable salaries has gained importance in social dialogue over the past few years, particularly as a consequence of the economic crisis. With the **Agreement on Employment and Social Dialogue 2012–2014** and the **Agreement on Employment and Social Dialogue 2015–2017**, the signatory parties (trade unions and employer organisations) agreed the importance of promoting variable salary components, so that salaries can be linked to a company's performance.

Similarly, in Italy, both trade unions and employer organisations tend to have a positive stance towards the increased adoption of variable pay. In recent years, the debate has mainly focused on the relationship between salaries and productivity, in view of the continuing stagnation of productivity in Italian companies. In Greece, in the 1980s unions expressed negative views towards linking wages and productivity. However, recently, employees and employers generally agree on the necessity and usefulness of linking pay and productivity, on the condition that it respects the collective agreement.

Defence of the basic salary: In some EU Member States, unions criticise the possibility that supplementary reward systems might present an obstacle to decent basic fixed salaries.

In Estonia, workers opposed to these forms of pay argue that reward systems are being implemented at the expense of already low base wages. The Slovakian Confederation of Trade Unions (KOZ SR) states that employee reward systems should play only a complementary role, as a decent standard of living should be ensured by basic pay. In Lithuania, variable pay is often used as a tool to pay minimum wages to low-skilled employees, rather than as a system for motivating employees. In such a context, trade unions typically try to ensure higher fixed pay for employees. Similarly, in Slovenia, while employers strive for greater flexibility, **trade unions emphasise the importance of increasing the basic wage**, especially for employees in the lowest wage brackets. In the Czech Republic, trade unions are principally focused on how to increase the current minimum wage, and the issue of variable wage components is not a priority.

In Latvia, in many sectors (for example, research and transportation) variable pay is allegedly used to provide reimbursement for work in undertakings that do not have stable financial flows and cannot provide regular wage payments. Trade unions insist that high levels of variable pay reduce the income security of employees.

In Cyprus, a representative of the Cyprus Wine Company (KEO plc), which is among the first companies that applied different forms of variable pay systems, has pointed out that the introduction of pay flexibility in Cypriot enterprises should go hand in hand with Cypriot culture, and in particular with the feeling of security and stability that all workers desire, especially in this sector where the turnover rate is especially high. In this context, several efforts by management to introduce more pay flexibility were rejected by the unions.

In Austria, trade unions argue that **variable pay systems may reduce the fixed pay component** of the wage or salary and increase the performance component. In France, unions have also expressed concern that generous **financial participation schemes may be used to reduce regular wages**. (An illustrative example was reported from the negotiation of the PSA Peugeot Citroën agreement, where a representative of the managerial staff union expressed a concern about the relatively generous financial participation scheme and said that it would not compensate for the quasi pay freeze on which they had to negotiate.) Moreover, recent initiatives to extend the funding of retirement saving schemes through the saving of bonus payments excludes those workers who do not have access to collective participation schemes. In addition, they state that groups excluded from financial participation schemes (such as agency workers or the low-skilled) could experience lower wages and poorer working conditions without taking into account bonuses. Unions in France also state that employee reward systems are a way for companies to pay less in social security contributions. In the long run, the system is not only increasing wage inequalities but might also lead to unequal access to decent pensions.

Finally, Belgian trade unions warn that, because payment in fringe benefits is not calculated – or is calculated at a lower amount – for social security contributions, this could affect entitlement to allowances for sickness, unemployment or retirement.

Conclusions 4

For some time, companies have been introducing what this report has referred to as supplementary employee reward systems, that is, schemes set up by companies to reward performance and motivate employees both as individuals and as a group. These schemes, which are normally considered separate from basic salary, may be monetary or in kind, but they have a cost to the company in either case.

The rationale behind the introduction of these supplementary reward systems is clear. From the perspective of employers, variable performance-related pay (PRP) and non-monetary benefits can provide companies with more flexibility than fixed forms of remuneration. For example, they can encourage stronger business performance by linking employee reward to business objectives and, incidentally, shifting part of the business risk and pressure to workers. They are also a powerful tool to recruit and retain key employees and to enhance a company's attractiveness as an employer, especially in highly competitive work environments. In some cases, they are introduced due to legal obligations or the prospect of better tax treatment in comparison to other forms of remuneration. Employees also welcome these systems, provided that they are applied in a fair, controlled and transparent manner by employers.

There are important barriers to the introduction of these reward systems, however, from the perspectives of both employers and employees. First, companies offering these schemes need to be in good economic shape. Second, anti-discrimination laws in some countries present legal obstacles to the introduction of such schemes. Third, PRP schemes are not always considered an advantage by employees as they can be perceived as setting unrealistic goals or as a source of stress at work, especially in contexts of low fixed wages.

There is limited availability of fully comparative sources of information on supplementary reward systems at EU level. The existing data show big differences across EU Member States both in the percentages of total labour costs that these schemes represent and in the percentages of establishments that use them. According to the European Company Survey (ECS), 62% of European establishments use at least one of the different types of variable pay. The most common system, implemented by 43% of companies, is linked to individual performance according to management appraisal. This is followed by payment by results, such as piece rates and commissions (34%), extra pay linked to the company results, for example profit-sharing (30%), and variable extra pay linked to the performance of the team, group or department (25%). Share-ownership schemes are used in just 5% of establishments.

Information from national sources shows that both variable PRP and wages and salaries in kind are more common than other forms of variable pay such as supplementary social security contributions or financial participation schemes (with the exception of profit-sharing). Again, significant differences exist among Member States.

The prevalence of supplementary reward systems has increased in recent decades in most European countries, although the recent economic crisis has had a negative impact in most Member States on their use as enterprises seek to reduce labour costs.

Generally speaking, supplementary reward systems are unevenly distributed among different groups of workers. Men, middle-aged workers and highly skilled or high-ranked workers, particularly managers, executives, professionals and technicians, more commonly receive these types of remuneration. The available information shows that the job categories that benefit more from supplementary employee reward systems also receive a higher percentage of their earnings from these schemes.

An uneven distribution according to company characteristics is also evident. Supplementary reward systems are used more in private companies than in the public sector (with some national exceptions) and more in certain sectors such as ICT, finance and insurance, and consultancy. Also, supplementary reward systems are more widespread and more

important in larger enterprises, in foreign-capital and multinational companies, and in enterprises located in central or advanced regions.

Certainly, all these differences between sectors, occupations and sexes can be intertwined to a large extent. Interestingly, also, some studies suggest a higher presence of some types of supplementary employee reward systems in companies that foster employees' involvement and autonomy, that pay higher salaries and that have a larger number of permanent and full-time employees, as well as in companies and sectors where employee representative organisations are stronger.

A clustering analysis of ECS data identified five distinct groups of establishments according to their use of variable pay: limited, financial participation, performance-based, individual-based and extensive. The extensive group (establishments that use of all forms of performance pay extensively) and the financial participation group (establishments characterised by a relatively high use of profit-sharing and share-ownership schemes) are both more likely to use autonomous teams in their organisations. At the other extreme are the limited group (establishments that rarely use any form of variable pay) and the individual-based group (establishments where use of individual performance pay is widespread), both of which are less likely to have autonomous teams in their organisations.

The regulation of supplementary reward systems is a mixture of conditions set in labour codes and other regulations such as tax provisions and terms included in collective agreements. As a rule, terms and conditions included in national labour codes or employment laws set general parameters (for example, basic definitions, minimum rights and obligations) or give options to be further decided by social dialogue, depending on the traditional role played by social dialogue and the leeway left to social partners within each country.

In some Member States (for example, Croatia, Estonia and Greece), supplementary employee reward systems are not normally part of collective agreements. In other Member States, these reward systems are either included in sectoral collective agreements (for example, in Austria, Denmark, France, Germany and Romania) or are mainly agreed at company level (for example, in Finland, Ireland, Malta, Norway, Spain and Sweden). It is usually the case that collective bargaining includes some specific employee reward systems and not others, depending on national circumstances.

With regard to the association between variable forms of pay and collective agreements in different types of establishments, the ECS data analysis demonstrates that two of the five groups – the extensive and the individual-based – have a relatively high proportion of establishments whose employees are covered by a combination of multi-employer and single-employer collective agreements. Establishments in the limited group are more likely than other groups to be covered by multi-employer collective agreements only.

Virtually all countries have regulated the tax treatment or the determination of social security contributions of supplementary reward systems or both in some way. Additional regulations in some Member States set clear limits on payments in kind (for example, in Greece, the Netherlands, Poland and Spain), establish legal provisions for specific reward systems (for example, in Belgium, Finland, France, Germany, Ireland and Slovenia) or regulate these payment systems for public sector workers (for example, in Bulgaria, Estonia, Finland and Slovenia). Some countries, including Germany, Luxembourg, the Netherlands, Sweden and the UK, have recently introduced stricter rules for bonus payments and other additional benefits paid in the financial services sector in order to safeguard the financial stability of the banking system, particularly as a consequence of the economic crisis.

Supplementary employee reward systems are supported or incentivised by public authorities via favourable tax treatment, particularly for salaries in kind (in Finland, Hungary, Norway, Portugal and Sweden) and supplementary pensions (in the Czech Republic, France, Italy and Malta), or via reduced social security contributions, mainly for salaries in kind (for example, in Belgium, France, Greece, Italy and Portugal). Some countries (such as Greece, Hungary,

Ireland, the Netherlands, Poland, Portugal and Spain) recently introduced changes in these schemes, aimed at decreasing available tax and social security advantages in a context of fiscal consolidation.

Finally, as far as the position of social partners on supplementary reward systems is concerned, the available information shows that employer organisations in most Member States are generally in favour of these systems as they are perceived to be powerful tools to increase employees' motivation and to link salaries to a company's performance. The existence of financial advantages associated with employee reward systems is another important reason for employers' positive attitudes. Trade unions also have a generally positive opinion of these systems in most Member States, although some types of reward, particularly PRP, are viewed with some distrust as it is feared that they can cause injustice and discrimination among workers. Trade unions emphasise that decent basic or fixed salaries must be guaranteed and that supplementary reward systems should be fair and open, inclusive of all (or a majority of) employees and discussed with employees' representatives.

Looking to the future, it is likely that the use and presence of supplementary employee reward systems will increase as the economy recovers, particularly in the private sector. Employers have a growing need for more flexibility, together with a need to increase their attractiveness and differentiation, especially in the context of an ageing population, shortages of professionals, fewer potential workers and a requirement for higher skills or qualifications. Among employees, there is also increasing interest in supplementary pay systems on top of wages, especially among highly skilled and highly qualified workers. However, it is as yet unclear whether these forms of payment will also be welcomed by other groups of workers and their representatives.

References

All Eurofound publications are available at www.eurofound.europa.eu

Abela, K. (2011), *Share option schemes in Maltese listed companies: An evaluation*, unpublished dissertation, University of Malta.

Barnes, C. M., Hollenbeck, J. R., Jundt, D. K., DeRue, D. S. and Harmon, S. J. (2011), 'Mixing individual incentives and group incentives: Best of both worlds or social dilemma?', *Journal of Management*, Vol. 37, No. 6, pp. 1611-1635.

Barth, E., Bratsberg, B. and Raaum, O. (2015), 'Prestasjonslønn i nye former', in Dale-Olsen, H. (ed.), *Norsk arbeidsliv i turbulente tider*, Gyldendal, Oslo, pp. 121–136.

Barth, E., Bratsberg, B., Hægeland, T. and Raaum, O. (2008), 'Who pays for performance?', *International Journal of Manpower*, Vol. 29, No. 1, pp. 8–29.

Barth, E., Bratsberg, B., Hægeland, T. and Raaum, O. (2009), *Performance pay and within-firm wage inequality*, IZA Discussion Paper No. 4137, Bonn.

Barth, E., Bratsberg, B., Hægeland, T. and Raaum, O. (2012), 'Performance pay, union bargaining and within-firm wage inequality', *Oxford Bulletin of Economics and Statistics*, Vol. 74, No. 3, pp. 327–362.

Berber, N. and Slavić, A. (2014), 'The practice of performance based pay in central and eastern Europe', in Marković, A. and Barjaktarović Rakočević, S. (eds.), *New business models and sustainable competitiveness*, symposium proceedings, Symorg 2014, University of Belgrade, Serbia.

Bryson, A., Freeman, R. B., Lucifora, C., Pellizzari, M. and Pérotin, V. (2012), *Paying for performance: Incentive pay schemes and employees' financial participation*, CEPDP1112, Centre for Economic Performance, London School of Economics and Political Science, London.

Calmi, P., Pendleton, A. and Poutsma, E. (2005), 'Financial participation and performance in Europe', *Human Resource Management Journal*, Vol. 15, No. 4, pp. 54–67.

Carnaz, A. (2010), *As preferências dos indivíduos no que respeita a benefícios*, Master's thesis, Business School, University Institute of Lisbon.

Caza, A., McCarter, M. W. and Northcraft, G. B. (2015), 'Performance benefits of reward choice: A procedural justice perspective', *Human Resource Management Journal*, Vol. 25, No. 2, pp. 184–199.

CNEL-ISTAT (Consiglio Nazionale dell'Economia e del Lavoro-Istituto Nazionale di Statistica) (2013), *Progetto CNEL-ISTAT sul tema 'Produttività, struttura e performance delle imprese esportatrici, mercato del lavoro e contrattazione integrativa'*, Interim report, Rome.

Cooper, C. L., Dyck, B. and Frohlich, N. (1992), 'Improving the effectiveness of gainsharing: The role of fairness and participation', *Administrative Science Quarterly*, Vol. 37, No. 3, pp. 471–490.

Coyle-Shapiro, J., Morrow, P., Richardson, R. and Dunn, S. (2002), 'Using profit sharing to enhance employee attitudes: A longitudinal examination of the effects on trust and commitment', *Human Resource Management*, Vol. 41, No. 4, pp. 423–439.

Damiani, M. and Ricci, A. (2014), 'Decentralised bargaining and performance-related pay: Evidence from a panel of Italian firms', *International Journal of Manpower*, Vol. 35, No. 7, pp. 1038–1058.

Delahaie, N. and Duhautois, R. (2013), *L'effet de l'intéressement sur l'évolution des salaires*, Connaissance de l'emploi, No. 108, Centre d'études de l'emploi, Paris.

Devaro, J. and Kurtulus, F. A. (2010), 'An empirical analysis of risk, incentives and the delegation of worker authority', *Industrial and Labor Relations Review*, Vol. 63, No. 4, pp. 641–661.

Dolvik, J. E. and Nergaard, K. (2011), 'Variable pay, collective bargaining and trade unions: A comparison of machinery and banking companies in Norway', *Economic and Industrial Democracy*, Vol. 33, No. 2, pp. 267–293.

Duarte, C., Esperança, J. P. and Curto, J. D. (2007), 'Determinantes da remuneração nas empresas portuguesas', *Revista Portuguesa e Brasileira de Gestão*, Vol. 6, No. 3, pp. 62–80.

Ellingsen, T. and Johannesson, M. (2008), 'Pride and prejudice: The human side of incentive theory', *American Economic Review*, Vol. 98, No. 3, pp. 990–1008.

Eurofound (2009), *Wage flexibility*, Dublin.

Eurofound (2011), *Performance-related pay and employment relations in European companies: Findings of the European Company Survey 2009*, Publications Office of the European Union, Luxembourg.

Gibbons, R. (1998), 'Incentives in organizations', *Journal of Economic Perspectives*, Vol. 12, No. 4, pp. 115–132.

Gneezy, U., Meier, S. and Rey-Biel, P. (2011), 'When and why incentives (don't) work to modify behavior', *Journal of Economic Perspectives*, Vol. 25, No. 4, pp. 191–210.

Greenland, J. (2011), *Collective agreements from a legal perspective*, unpublished dissertation, University of Malta.

Hammermann, A. (2013), *Not just for the money, but what for? An experimental and empirical analysis of immaterial, tangible and monetary incentives*, Kovac, Hamburg.

Kauhanen, A. and Piekkola, H. (2006), 'What makes performance-related pay schemes work? Finnish evidence', *Journal of Management & Governance*, Vol. 10, No. 2, pp. 149–177.

Morais, E. (2013), *A percepção dos indivíduos quanto à transparência, justiça e controlo no processo de atribuição de remuneração variável e a sua influência na motivação*, Master's thesis, Business School, University Institute of Lisbon.

Pendleton, A. (2006), 'Incentives, monitoring and employee stock ownership plans: New evidence and interpretations', *Industrial Relations*, Vol. 45, No. 4, pp. 753–777.

- Pendleton, A. and Robinson, A. (2010), 'Employee stock ownership, involvement, and productivity: An interaction-based approach', *Industrial and Labor Relations Review*, Vol. 64, No. 1, pp. 3–29.
- Pendleton, A. and Robinson, A. (2015), 'The productivity effects of multiple pay incentives', *Economic and Industrial Democracy*, DOI: 10.1177/0143831X15583099.
- Prendergast, C. (1999), 'The provision of incentives in firms', *Journal of Economic Literature*, Vol. 37, No. 1, pp. 7–63.
- Prendergast, C. (2002), 'The tenuous trade-off between risk and incentives', *Journal of Political Economy*, Vol. 110, No. 5, pp. 1071–1102.
- PWC (2014), *Rörliga ersättningar inom finansbranschen: Nya regler påverkar företagen*, PricewaterhouseCoopers i Sverige AB, Stockholm.
- Roberts, J. (2010), 'Designing incentives in organizations', *Journal of Institutional Economics*, Vol. 6, No. 2, pp. 125–132.
- RS Group (2006), *Wages and impacting factors*, The 'Labour Market Studies' project of the European Structural Fund national programme 'Labour Market Studies of the Ministry of Welfare', No. VPD1/ESF/NVA/04/NP/3.1.5.1./0001/0003, Riga.
- Schwarz, R. M. (1989), 'Participative decision making: Comparing union management and management-designed incentive pay programs', *Group and Organisation Management*, Vol. 14, No. 1, pp. 104–122.
- Slomczewska-Klimiuk, M. (2014), 'Motywujące benefity', *Personel i zarządzanie*, No. 4, pp. 20–23.
- Statistics Norway (2013), *Arbeids- og bedriftsundersøkelsen 2012*, Notater Documents 38/2013, Statistisk sentralbyrå, Oslo.
- ViiImann, N. (2010), *Labour market review 1/2010*, Estonian Bank, Tallinn.

Annex: Latent class analysis of ECS data on variable pay

The latent class analysis was performed with Latent Gold 5.0 software. The variables used aimed to replicate as much as possible the ones used in Eurofound (2011) and were included as active covariates:

- country;
- sector defined as 10 broad categories;
- company size (three categories: 10–49 employees, 50–249 employees and 250 or more employees);
- proportion of part-time workers (binary variable: less than 20% versus 20% or more);
- innovation (binary variable: none versus at least one change as reported in questions BINNMAPR, BINNMAPU, BINNPRSE, BINNOPROC or BINNOORG);
- possibility of using accumulated overtime for days off (HACCUOV as a binary variable: yes versus no);
- presence of teams in the establishment (nominal variable, 0 if there are no teams, 1 if there are teams where tasks are distributed by a supervisor, 2 if there are autonomous teams in the establishment);
- proportion of employees who received time off for training in the past 12 months (binary variable: less than 20% versus 20% or more);
- collective bargaining coverage of employees (nominal variable: no collective bargaining, only multi-employer collective bargaining, only single-employer bargaining, or both multi-employer and single-employer bargaining);
- financial situation of the establishment (binary variable: (very) bad or neutral versus (very) good);
- proportion of female employees (binary variable: less than 40% versus 40% or more).

The following variables from Eurofound (2011) were not available in the ECS 2013 dataset:

- foreign ownership;
- employee representative's support of the performance-related pay;
- no overtime being worked;
- no changes of remuneration system/no information on involvement.

Finally, questions on trade union density and quality of information provision were asked in the ECS 2013 but they were not included in the analysis. This is because they were included in the employer representative questionnaire and their inclusion would limit the sample size considerably.