

Unleashing the potential – Variable pay and employment relations



Increased internationalisation of competition has created pressure from employers for flexibility or variation in pay. This affects both the process of wage regulation, particularly through collective bargaining, and pay outcomes. Additionally, a trend towards decentralisation of pay regulation at company level means that employers can achieve greater pay flexibility and variation on cost and performance grounds.

Eurofound's European Company Survey 2009 found that a third of European establishments with more than 10 employees use elements of pay which depend on the performance of individuals, and less than a fifth of establishments use group-based performance-related pay (PRP).

Where is performance-related pay used?

Eurofound research examined the relationship between variable pay and employment relations. Drawing on ECS data, it showed that the country where an establishment is based and factors related to the establishment itself play a major role in determining whether such schemes are in place. Many of the new Member States lead the way (for example, Slovenia and the Czech Republic), but variable pay practices are also more common in Nordic countries, such as Finland and Denmark.

Companies are more likely to have adopted some form of PRP scheme if they are bigger, in foreign ownership, performing well economically or have previously undergone some form of restructuring; possibly also if they are a

headquarters or operating within certain sectors (financial intermediation, commerce, real estate and business services). There is also a clear positive connection between PRP and a comparatively high qualified workforce.

Workforce composition, human resources and flexibility practices, industrial relations structures, and social dialogue practices are related to how companies implement PRP.

Share of establishments offering different forms of PRP

	Total	Share of employees covered by PRP schemes				All
		< 10%	10%–25%	25%–50%	> 50%	
Share of establishments with individual PRP	32%	4%	7%	4%	8%	9%
Share of establishments with group PRP	18%	2%	4%	2%	4%	6%

Source: Eurofound, Second European Company Survey (2009)

Notes: All establishments > 10 employees; countries surveyed were the EU27, Croatia, the former Yugoslav Republic of Macedonia and Turkey; establishments are weighted.



It is applied by companies together with a bundle of internal flexibility measures, such as working time flexibility, training and overtime. Group-based schemes are more likely to be found in companies where autonomous teamwork is practised, but less likely where teamwork is supervised. No such association exists with pay based on individual performance.

PRP measures are more likely to be found in companies that have restructured, suggesting that companies that have experienced this sort of organisational stress may see a stronger need to introduce human resource practices that align and incentivise employees, such as PRP.

The incidence of PRP within companies is associated with the country in which a company is based and establishment-related factors, such as company size and the sector where it operates.

Linkages with employment relations

Holding all of the influences discussed above constant – that is, comparing like with like – the study further looked into the connection between PRP and employment relations. It could show that across Europe, PRP is more likely to be present where employee representation exists, particularly single forms (either trade union or works council in an establishment, not both); however, country factors play a major role here.

There is some evidence for trade unions' reservations over schemes for individuals: when trade union density is high and when representatives report an 'excellent' climate of industrial relations at company level, the likelihood that individual PRP schemes have been set up is low. This suggests that in such cases, good collective relationships have not been jeopardised through individual arrangements. This effect is not as pronounced in the case of group-based schemes.

Social dialogue practices matter: when the employee representatives have been involved in previous changes of the remuneration system, the likelihood that a PRP scheme is in place is higher than when they had not been involved.

The research also found that within different regimes of industrial relations, the linkages across structures of representation, social dialogue and PRP can and do vary.

Further information

This fact sheet forms part of the Eurofound resource pack *Unleashing the potential – Flexibility in European companies*. The pack explores the flexibility strategies used at national and company level and their impact on employees.

For a copy of the pack or for further information on this area of activity, please email flexibility@eurofound.europa.eu

To view the resource pack online and all other Eurofound materials on this topic, please visit www.eurofound.europa.eu/resourcepacks/flexibility.htm

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