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JEL Classification: J31, J33, M52

Original scientific paper

<https://doi.org/10.32910/ep.72.4.3>

**THE PERSPECTIVES OF VARIABLE PAY IN CROATIA:
IS THERE A GAP BETWEEN EMPLOYEE PAY
PREFERENCES AND ACTUAL COMPENSATION
PRACTICES?**

Variable pay can have numerous benefits for the employee and the employer, however, the overall effect of variable pay will depend upon employee attitudes and preferences towards such form of compensation. Considering that reward systems in Croatia traditionally used the equality principle, the objective of this paper is to examine the role of variable pay from both employee and employer perspectives. Research results are based on a Delphi research of employee attitudes about variable pay and empirical investigation of actual employers' variable pay practices. The Delphi study results indicate a lack of consensus about employees' preferences for variable pay in Croatia. However, practice shows that some form of individual variable pay has been adopted by most examined companies. There is some gap between preferences for variable pay and actual compensation practices so this paper identifies conditions under which acceptance of variable pay can be improved.

Keywords: compensation, variable pay, pay preferences

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1. INTRODUCTION

Several principles might guide the determination of pay and serve as the basis for the reward system, but in the last decades we are witnessing an increase in the prevalence of different forms of variable pay due to their incentive effects (Park & Sturman, 2016). Unlike traditional pay plans that are based on the worth of the job performed and where employees saw their job and pay as an entitlement, variable pay or pay for performance compensation is based on the principle that employees should be rewarded, in part at least, according to their contribution to performance (Henderson, 2006). Such plans distinguish from traditional time-based pay schemes in that sense that they incorporate individual, team, or organizational performance criteria (Armstrong & Murlis, 2004; Milkovich, Newman & Gerhart, 2013).

Variable compensation can be classified along several dimensions. Besides the level at which performance is defined and measured (individual-group-organization), variable compensation plans can also be differentiated by the time frame associated with measuring and rewarding performance (short-term or long-term) or according to the type of reward (cash, equity, recognition) (Greene, 2011). The common features of these numerous forms of variable pay are that it is „pay at risk“ which is awarded for specific achievements so that it will not be paid unless targets are achieved (Armstrong & Murlis, 2004:278) and that its effectiveness depends upon employee risk-aversion (Cadsby, Song, Tapon, 2016).

Variable pay has been a common component of executive pay, sales personnel compensation, or compensation for some types of manual workers. However, the use of supplementary employee reward systems has increased across Europe in recent decades, both in terms of the number of companies using it and the number of employees covered (Eurofound, 2016). According to the European Company Survey, almost two-thirds of European establishments use at least one form of variable pay, although there are substantial differences between Member States (Eurofound, 2016). European Working Conditions Survey (EWCS, 2015) reveals that about one in four examined employees (27%) in the EU28 reported that their earnings included some form of variable pay (Eurofound, 2017). The same research also confirmed that establishments use variable pay only for a minority of employees rather than as a general practice covering all employees. The most common types of variable pay plans among employees are pay linked to individual performance (received by 16% of examined employees) and profit-sharing schemes (received by 13% of examined employees).

Pay has a significant influence on job attractiveness, and therefore, on attracting potential employees (Cable & Judge, 1994). Additionally, it has been widely

acknowledged that some reward elements have higher motivation potential than others (Stajkovic & Luthans, 2001). Organizations should choose the compensation system that will allow them to achieve desired objectives. However, when designing compensation plans employee pay preferences must not be neglected. A reward system should be built on an understanding of employees' reward preferences (Lawler 2000, Kurtulus, Kruse & Blasi, 2011).

Previous research has confirmed that variable pay aligns firms' and employees' interests (e.g., Jensen & Murphy, 1990). However, the drawback is that most previous researches on pay preferences were conducted in the context of North American cultures (Tosi & Greckhamer, 2004) and its conclusions have been simply transferred to other national contexts (Mamman, 1997). The rationale for this research is the claim that extension and replication of pay preferences theory in other contextual environments are important to knowledge accumulation and further theory development (Tsang 2002 after Chiang & Birtch, 2006). The starting point for this paper was the assumption that the implementation of variable pay depends upon numerous factors and that its attractiveness for employees should be examined within country-specific contexts (see Prince et al., 2016).

There are several research questions to be addressed with this paper: (1) what are the perspectives of using variable pay in Croatia, (2) what is the practice of using variable pay in Croatia and (3) do employee preferences for variable pay and current compensation practices in Croatia converge?

2. THEORETICAL BACKGROUND

2.1. *Employee preferences towards variable pay*

Variable pay has been strongly proclaimed in compensation management as the most effective and equitable reward system to both employees and the organization (Mamman, 1997:33). It has been confirmed that variable pay has positive effects on job satisfaction (e.g. Kruse, Freeman & Blasi, 2010; Green & Heywood, 2008), productivity (Bucklin & Dickinson, 2001; Cadsby, Song & Tapon, 2007), level of output (Dohmen & Falk, 2011), as well as that some forms of variable pay reduce employee turnover (O'Halloran, 2011). Even though pay preferences may influence individual and organizational outcomes of pay systems (e.g. Cable & Judge, 1994) there has been a void in the research on pay preferences (Chiang & Birtch, 2006). Employee preferences for different participatory compensation programs have been only sporadically examined possibly due to the lack of ap-

propriate data sets (Kurtulus, Kruse & Blasi, 2011). Furthermore, limited research on pay preferences focused on fixed versus variable pay in general and did not distinguish between the individual, group, or collective based variable pay, although employees' preferences for variable pay can depend upon whether it is based on individual, team/group or company performance (LeBlanc & Mulvey, 1998). For example, individual-based variable pay might be preferred over group-based variable pay (Keaveny, O'Neill & Inderrieden, 2013).

Economic theory predicts that employees will have more favorable attitudes towards variable pay schemes when they: i) have low levels of risk aversion (e.g. see Cadsby, Song & Tapon, 2007; Dohmen & Falk, 2011), ii) have greater control over the work process generating payouts (residual control), iii) trust their co-workers, so that the free-rider problem associated with group incentives can be overcome by a cooperative solution, and iv) trust their managers not to exploit information asymmetries when distributing financial payouts (Kurtulus, Kruse & Blasi, 2011). Additional predictors of attitudes towards variable pay include individual characteristics (age, gender, individual's competitiveness, and other personality traits, relative self-assessment, equity sensitivity, occupation/position, and level of education) and work-related attitudes (organizational and occupational commitment, satisfaction with pay) (Parnell & Sullivan, 1992; Cable & Judge, 1994; Mamman, 1997; Lee, Iijima & Reade, 2011; Dohmen & Falk, 2011; von Bonsdorff, 2011; Keaveny, O'Neill & Inderrieden, 2013). More precisely, employees who are younger, competitive, and committed to their occupation prefer variable pay. High performers are attracted to variable pay systems and low performers are attracted to fixed pay systems (Dohmen & Falk, 2011). Also, women are less likely to select variable-pay schemes than men (Dohmen & Falk, 2011). Keaveny, O'Neill & Inderrieden (2013) suggest that preference for individual variable pay systems might be negatively influenced by company size but shows a positive relationship with job support or perceptions of work autonomy.

Value systems and national culture also act as an important determinant when examining individual pay preferences (Cable & Judge, 1994) and the overall motivation potential of variable pay (Money & Graham, 1999). In order to achieve the best results through the compensation system, companies should employ culturally congruent compensation techniques (Schuler & Rogovsky, 1998). In highly collectivistic cultures individual variable pay may act as a far lesser incentive than in individualistic countries (Schuler & Rogovsky, 1998; Money & Graham, 1999, Goktan & Saatçioğlu, 2011). Furthermore, collectivistic values are related to preference for seniority-based pay (Goktan & Saatçioğlu, 2011) whilst uncertainty avoidance values show a positive relationship with the preference for fixed pay. Still, there is some evidence that employees might show a preference for equity-based compensation over equality-based compensation (Long et al., 2012)

even in cultural contexts for which it is unexpected due to original cultural values (Muduli, 2011).

Unionists also tend to be less supportive of variable pay (Gomez-Mejia & Balkin, 1992; Lawler, 2000). Brown (2001) claims that job security is positively associated with preference for variable pay. Studies that have investigated employee preferred criteria to determine pay differentials (e.g. Mamman, 1997; Dickinson, 2006) conclude that individual performance is among the most popular criteria to determine variability in pay and that employees do accept performance as the basis for determining pay (Dickinson, 2006).

Empirical research on pay preferences is often the result of laboratory experiments, and as Mamman (1997) argues the findings of such studies are not generalizable across cultures. Research conducted by Kurtulus, Kruse & Blasi (2011) on an international set of employees has shown that most workers desire between 0 and 30 percent of their compensation to be comprised of variable pay, with an average preference for variable pay of 20 percent of compensation. Individual-oriented success sharing plans are more popular than group-oriented success sharing plans (Keaveny, O'Neill & Inderrieden, 2013). Evidence exists that merit pay is a poor motivator if the performance measures are somewhat unclear and the rewards for performance are relatively small (Lawler, 2000). Interestingly, research by Kurtulus, Kruse & Blasi (2011) shows that employees show a preference for stock and stock options over cash incentive plans. Lee, Iijima & Reade (2011) at the same time showed that even in the Japanese context with the dominant seniority-based payment system, employees show preference for performance-based pay over seniority-based pay.

2.2. Performance-related pay in the Croatian context

Compensation practices in Croatia were traditionally limited to egalitarian pay structures with the pay system based on seniority. Such compensation system was rather similar to other emerging market economies, where most of these countries traditionally based compensation on seniority, group membership, and equality concerns rather than performance (Giacobbe-Miller et al., 2003; Du & Nam Choi, 2010). However, since the 1990s Croatian companies have experienced a change in their compensation systems, where many companies implemented performance based pay, particularly at the individual employee level. This might be the consequence of the global Americanization (Kressler, 2003) or Anglo-Saxonisation (Poutsma, Ligthart & Schouteten, 2005) of reward systems since numerous countries recently withdrew from the traditional reward structures of

their countries and adopted the 'Western world' approach, namely compensation strategies based on the extensive usage of short and long-term incentive compensation. Still, due to the collectivistic national culture in Croatia (Hofstede, 1980), it is unclear whether such compensation systems can result in expected outcomes.

Croatia is traditionally classified among states with less prevalent variable payment systems. According to the comparative European Company Survey (ECS, 2013), the most common form of variable payment in Croatia is pay linked to the individual performance of workers after management appraisal (40% of companies in Croatia, EU28 average 48%), followed by payment by results (28% of companies in Croatia, EU28 average 34%), pay linked to group performance (20% of companies in Croatia, EU28 average 25%) and profit-sharing (19% of companies in Croatia, EU28 average 30%). Shared ownership schemes are available in just 5% of European establishments and 3% of Croatian companies (Eurofound, 2016). Earlier researches based on comparative methodology confirm the finding that Croatian companies use individual variable pay at lower rates than other EU countries, especially when compared to more developed countries (e.g. see Načinović, Klindžić & Marić, 2012).

With respect to the collectivistic national culture dominating in Croatia, one of the first studies of group-based incentives in Croatia, based on 1998 data, revealed that 18.1% of surveyed organizations used profit sharing and 6.6% used stock options (Galetić, Tipurić & Juri, 2000 after Pološki Vokić, Klindžić & Načinović Braje, 2016). Later research by Galetić & Načinović (2006) indicated that 8.2% of sampled companies used profit sharing, 16.7% used stock sharing and 14.6% used stock options. Due to different datasets examined, the comparison of different researches on the incidence of such financial performance schemes in Croatia (see Pološki Vokić, Klindžić & Načinović Braje, 2016) does not offer a definite conclusion on the most often used group-based scheme, however, in general, such variable schemes are used less than individual performance-related pay.

3. METHODOLOGY OF RESEARCH

The large-scale research on perspectives and current status of reward management practices in Croatia was performed in two rounds: first, qualitative Delphi research followed by quantitative research.

Qualitative research

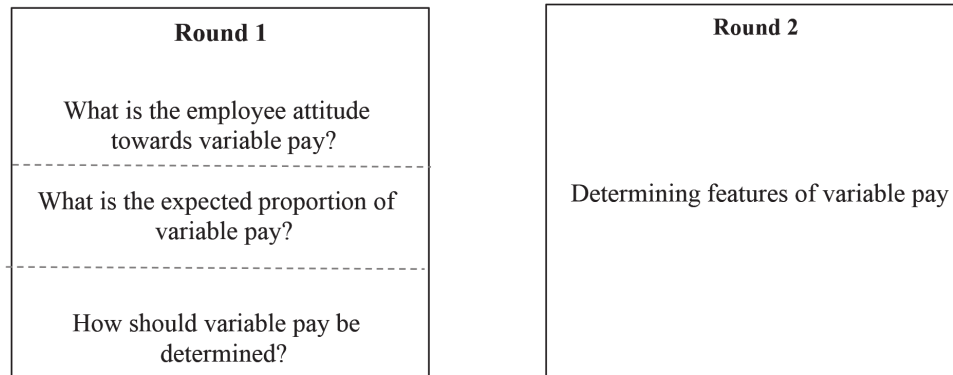
The purpose of the qualitative research was not only to get a general overview of the reward management practices in Croatia but also to identify and discuss potential improvements that could be made to reward management practices to converge practices used with “best practices” available, especially those used by companies in other EU countries. Delphi study was used to reach some consensus about these open questions. The drive to undertake qualitative research was the necessity to understand the practice and to get an insight of knowledge of reward management from insiders’ (practitioners’) point of view.

The Delphi technique uses knowledgeable experts that provide their opinions on topics from their area of expertise to a central coordinator. Structured or unstructured questionnaires are sent to a panel of experts; the responses are collated and the original/revised questionnaire is then re-circulated, accompanied by an anonymized summary of responses (Mullen, 2003). The process occurs in several rounds until a consensus has been formed (Grisham, 2009). Since its initial use for technological forecasting in the 1950s, Delphi has been applied for many other purposes in social development, including health care, hospitality research, and research associated with human resource issues (Mullen, 2003; McGuire & Cseh, 2006; Rupperecht et al., 2011; Paraskevas & Saunders, 2012). Delphi studies usually include three rounds of questionnaires (Powell, 2003) but the final decision about the number of rounds can be determined based on pragmatic reasons (Powell, 2003, Paraskevas & Saunders, 2012). As Paraskevas & Saunders (2012) argue, one central question in the use of Delphi is the percentage of agreement a researcher should accept as synonymous with expert consensus. The practice shows that it can vary between predetermined explicit percentage cut-off points (e.g. 50-80% agreement) to arbitrary cut-off points (Paraskevas & Saunders, 2012).

The purpose of this study was to determine the prospects of implementing variable pay in Croatian companies according to practitioners’ views.

Figure 1.

TWO ROUNDS OF DELPHI RESEARCH



Participating experts' group was based on a convenience sample. A total of 13 participants, expert practitioners working in the field of reward management or general human resources, participated in Round 1 of Delphi research. They were employed by companies that varied in terms of sector, ownership structure, and unionization. The attrition rate between the two rounds was 15% (2 participants). All participants received an e-mail invitation to participate in the study which also contained an explanation of the Delphi process. A two-week time frame was assigned to each round of the research, with a reminder sent after the first week of each round. In the first stage, respondents were asked to respond to several research questions. The second stage of the research can be described as the narrowing phase since respondents were asked to provide reasoning for broader issues identified in phase one. Rating questions in study phase two were analyzed according to descriptive statistics (mean and SD).

Quantitative research

The primary data was collected from companies that employ more than 100 employees, with 61 companies in the study sample. The population for this research was obtained through the Croatian Chamber of Commerce (CCC) where it was revealed that approximately 1700 companies in Croatia employ more than 100 people, out of which 386 companies employ more than 250 people (labeled as

“large companies”). An e-mail with a cover letter from the principal investigator and a link to the online research questionnaire was sent to HR departments of all companies in the CCC database. The 46 questions questionnaire was developed to examine different pay modalities as well as various attitudes, behavior-based indicators, or organizational outcomes. A certain number of variables were treated as dummy variables (e.g. whether certain pay element existed in the organization or not), while the majority was of nominal and continuous character for which respondents were asked to make an assessment either on a Likert type scale or as closed-ended questions (ownership type, profitability in the last three years and legal form of the company). Several open-ended questions were present as well (e.g. year of establishment, industry, number of employees). The allotted time for filling the questionnaire was approximately 30 to 45 minutes.

The independent characteristics of the companies in the sample are given in a summary table below (Table 1). The sample included more companies from the service sector (54.45%), established after 1990 (54.1%), organized as limited liability companies (67.2%), and with a private domestic ownership majority (55.7%).

Table 1.

DATA DISTRIBUTION BY SAMPLE CHARACTERISTICS

Company characteristic	Total sample (n=61)
<i>Industry</i>	Manufacturing – 42.55%, Services – 54.45%
<i>Year of establishment</i>	Before 1990 – 45.90%, After 1990 – 54.10%
<i>Number of employees</i>	Less than 250 – 50.80%, More than 250 – 49.20%
<i>Legal form</i>	Joint-stock company – 32.80%, Limited liability company – 67.20%
<i>Profitability in the last 5 years</i>	Cannot assess – 1.60%, Unprofitable – 4.90%, Around or below average – 23.30%, Profitable – 70.50%
<i>Ownership structure (majority)</i>	Private domestic – 55.70%, Private foreign – 32.80%, State-owned and mixed – 11.50%

4. RESEARCH RESULTS

4.1. Delphi study

The research questions of the Delphi study focus on experts' opinions about different issues related to variable compensation. For this study, 80% agreement was used as a cut-off point for expert agreement.

RIQ1 What are employees' attitudes towards variable pay?

Experts show signs of disagreement concerning employees' attitudes on variable pay and it was impossible to draw consensual opinion in round one. Some unconditionally claim that employees have a positive or negative view of variable compensation, but there are also some that claim that employees have a positive attitude towards variable pay only if certain conditions are met. Some of these conditions are that variable pay must be fairly distributed, based on predetermined criteria, clearly defined, and communicated. Experts also emphasized the importance of the amount of fixed pay relative to variable pay, claiming that the amount of fixed pay must be sufficient. Those experts who claim that employees have a purely negative view of variable compensation explain it with the socialist heritage of equal pay, fear of failure, lack of knowledge or experience with variable pay.

In general, experts' responses indicate that in case companies in Croatia should opt for variable pay, they must be prepared that not all employees will have positive attitudes about it and accept it as a motivation technique. Respondents to the survey mentioned some obstacles that might inhibit the full potential of variable pay. This finding is especially important for multinational companies operating in Croatia since they will not be able to transfer reward systems to their subsidiaries in Croatia.

RIQ2 What is the expected proportion of variable pay?

Most experts acknowledge that the proportion of variable pay depends upon job position and type of industry. Still, most of them believe that, in general, around 10-30% of the total pay could be variable due to the point that employees in Croatia expect and appreciate safety. Such expectation is consistent with research on employee expectations on variable pay (e.g. Kurtulus, Kruse & Blasi, 2011). The exception to this expectation is the proportion of variable pay of sales personnel: experts expect that for these employees variable pay can account for up to 50%

of total pay. Another exception is the employee's hierarchical position - human resource management experts believe that the proportion of variable pay should increase with the hierarchical position. However, several experts emphasized that employees in Croatia value safety, which is fully consistent with the features of national culture in Croatia (e.g. Hofstede, 1980). Consequently, it would be beneficial for companies to have the amount of fixed pay large enough to leave employees with a feeling of security.

R2Q1 Experts' ratings of different aspects of variable compensation

Since the first round of Delphi research revealed that experts do not share a common view on variable compensation, round 2 of Delphi research tested different features of variable compensation in Croatian companies.

Concerning the general proportion of variable compensation that could be acceptable for employees, the proportion of 20-30% of variable pay was tested. Considering that 82% of examined experts agree, we find that a consensual opinion has been reached: the acceptable proportion of variable pay should amount to up to 30% of total pay. However, experts did not reach a consensus on the proportion of variable compensation in sales. Experts disagree with the claim that in sales variable pay should amount to 50% of total pay.

Experts are consensual that employees at lower hierarchical levels are more difficult to accept variable pay but that they more easily accept variable pay in case they perceive that the performance appraisal system is fair. An additional feature that was tested in the context of acceptance of variable pay is the perception of the rater's competence to perform the appraisal. However, results indicate that experts do not believe that this is among the crucial items that improve the acceptance of variable pay. Although round 1 of Delphi research revealed that the employee's hierarchical position might influence its acceptance of variable pay, round 2 of the Delphi research showed that employees accept variable pay more easily in case they have higher base (fixed) salary. The final claim tested in Round 2 was the point that employees have a negative attitude towards variable pay because of fear of failure. However, research results indicate an absence of agreement on this issue.

Table 2.

FEATURES OF VARIABLE COMPENSATION IN CROATIAN COMPANIES

Features of variable compensation	% of agreement	Average	S.D.
The acceptable proportion of variable pay for employees in Croatia amounts to 20-30% of total pay.	82%	3.73	0.65
In sales, the preferred proportion of variable pay amounts to 50% of total pay.	54%	3.55	1.04
Employees at lower hierarchical levels are more difficult to accept variable pay.	100%	4.55	0.52
Employees accept variable pay more easily in case they have a higher base (fixed) salary.	91%	4.27	0.65
Employees have a negative attitude towards variable pay because of fear of failure.	63%	3.64	0.81
Employees more easily accept variable pay in case they perceive the rater as competent.	82%	3.82	0.40
Employees more easily accept variable pay in case they perceive that the performance appraisal system is fair.	100%	4.18	0.40

Based on the second round of the Delphi research, a general conclusion is that HR experts do not completely share their views on the amount of variable compensation that should be offered to employees or how to increase acceptance of variable pay. A possible reason for this is that the possibilities of implementing variable pay in Croatia greatly differ depending upon the type of industry or company ownership. There is still a significant number of companies in majority state ownership, most of them unionized, that do not apply variable compensation or intend to do so in the future.

Additional rounds of Delphi research were not conducted since it was not foreseen that experts might reach a consensus due to conflicting expectations about variable pay.

RIQ3 How to determine variable pay?

Experts were asked to identify the most often used standards to determine performance and subsequently variable pay. There has been a consensual opin-

ion on the most often used criteria: “quantity of output” and “fulfillment of tasks and objectives”. Besides these, participants in the Delphi survey identified “quality of output” and “employee competencies” as important criteria when determining performance levels. Research output indicates that the preferred criteria for determining variable pay among Croatian companies include job-related features while the importance of employee’s personal traits was minorized.

4.2. Quantitative research

After examining the perspectives of variable pay based on experts’ opinions on the subject matter, the quantitative research examined current compensation practices in Croatian companies (n=61). The incidence of several forms of variable pay is shown in Table 3.

Table 3.

THE USE OF DIFFERENT FORMS OF VARIABLE PAY AMONG
DIFFERENT EMPLOYEE CATEGORIES

Type of incentive	% of companies applying for different categories of employees			% of companies applying for at least some employee category
	<i>Managers</i>	<i>Experts</i>	<i>Other employees</i>	
Norm measurement	4.9	4.9	11.5	11.5
Performance appraisal	54.1	54.1	55.7	73.8
Occasional bonuses based on superior’s evaluation	47.5	42.6	32.8	57.4
Sales commission	27.86	21.3	23.0	36.1
Goalsharing	23.0	24.6	23.0	31.1
Gainsharing	6.6	4.9	3.3	6.6
Profit sharing	26.2	9.8	8.2	27.9

Results indicate that individual variable pay is used more often than group-based pay. Individual variable pay is most often the result of the performance appraisal process. Still, it must be emphasized that performance appraisal does

not necessarily result in variable pay, so although companies use this form of evaluation, the actual percentage of companies that apply variable pay might be lower. However, it must be emphasized that compensation management practices in Croatia are highly dependent upon company ownership structure, for example, the majority of state-owned companies (11.5% of the total sample) usually do not offer variable pay.

A relatively high percentage of companies (57.4%) offer variable pay in the form of occasional bonuses based on the supervisor's (subjective) evaluation. The beneficial effect of this form of variable pay will depend upon the criteria used to determine variable pay; it will be greatest in case employees are informed about the criteria used to award them with such a bonus. Although Croatia is considered to be a highly collectivistic society, thus employees might more easily accept group-based variable pay, research results indicate that it is not a common method of variable pay among Croatian companies. Slightly less than 1/3 of all companies offer the possibility to earn additional payment based on achieving predetermined team results (goal sharing) or as a result of profit-sharing.

Besides the incidence of variable pay, an important aspect of variable pay is the proportion of variable pay in total pay. Research results indicate that variable pay among those companies that apply it, on average, amounts to 15.98% of total pay, with a standard deviation of 9.10%. However, respondents also provided their opinion on the ideal proportion of variable pay in total pay.

Table 4.

THE PROPORTION OF VARIABLE PAY IN TOTAL PAY AMONG
 COMPANIES THAT APPLY VARIABLE PAY

The current proportion of variable pay (%) among companies that apply variable pay (n=44)				The ideal (desired) proportion of variable pay (all companies)			
Average	15.98	St. dev.	9.10	Average	26.60	St. dev.	11.94

As shown in Table 4, the desired proportion of variable pay is higher than the current proportion and amounts to 26.6%. Such results indicate that although HR experts find that it is necessary to implement variable pay there is still a gap between perceived employee preferences, current practices, and expectations on the ideal proportion of variable pay.

5. DISCUSSION AND CONCLUSIONS

In the contemporary era, variable pay is the core element of reward management practices. Researchers and practitioners have identified numerous benefits of variable pay for the employee and the company. However, the overall effect of variable pay will depend upon employee attitudes and preferences towards such form of compensation. This paper questions the role of variable pay in Croatia – a unique research setting due to the long tradition of egalitarianism in compensation management in Croatia.

Delphi research revealed that HR experts do not agree that employees in Croatia show a high level of acceptance of variable pay. Experts' opinions diverged, as some of them claimed that employees have a positive attitude towards variable pay, whilst others claimed that the employees' attitudes are solely negative. Some respondents identified several preconditions necessary to implement variable pay. Taking into consideration such polarized opinions from experts that are responsible for implementing compensation systems, it is clear that companies cannot implement variable pay without preparing employees for this type of compensation. During this process, both employees and managers should be informed and trained on how to use variable pay. For example, it is emphasized that employees at lower hierarchical levels might accept variable pay with more difficulties than employees at higher hierarchical levels. However, the level of acceptance will be improved in case employees have a higher guaranteed (fixed) base pay and in case they perceive that the performance appraisal system is fair, and the performance rater is competent. In general, concerning the first research question, it can be concluded that employees probably will not show a high preference for variable pay but some conditions improve the acceptance of variable pay.

Quantitative research conducted among medium and large companies confirmed that there are still numerous companies that do not use variable compensation at all. More than 70% of examined companies have implemented performance appraisal for at least some employee group within the company, although this does not imply that all of them use it as the ground for individual variable pay. For example, a relatively high proportion of companies offer occasional bonuses based on managers' subjective evaluations. With such findings, with respect to the second research question, it can be concluded that individual variable pay is the common component of compensation packages, at rates that are comparative with other EU countries (e.g. Eurofound, 2016). Group-based pay is used at much lower rates, but such a trend has been found in other countries as well (e.g. see Eurofound, 2017).

As a part of the final research question, it was discussed whether employee preferences for variable pay and current compensation practices in Croatia con-

verge. Research results show that although the starting point for the reward systems in Croatia was somewhat different than in developed EU countries, by now these practices have started to converge. However, the question to be answered is how will employees accept these practices? Although HR experts did not reach a full consensus on the attitudes towards variable pay showed by Croatian employees, many agree that employees do accept variable pay. As shown earlier, the level of acceptance for variable pay is influenced by several individual-related factors (e.g. risk aversion, trust with managers/co-workers, individual features or value system). Still, there are some conditions controlled by the company HRM that also improve the acceptance of variable pay, e.g. ratio of fixed-variable pay, the fairness of the performance appraisal process and rater competence. By solving these issues companies can improve the acceptance of variable pay and minimize the gap between employee pay preferences and compensation practices.

Research-based knowledge on attitudes towards variable pay can help human resource managers and policymakers to develop more suitable reward systems, which in turn has the potential to increase employee performance. There is a general scarcity of reward management studies in Croatia and this study intended to develop an understanding of the role of variable pay in Croatia. The understanding of this issue might enable organizations to adapt their use of variable compensation to increase the motivational potential of rewards which in turn leads to positive attitudinal and behavioral outcomes and optimizes the use of limited resources.

Some research limitations must be acknowledged. In qualitative research, the information on employee preferences for variable pay was based on HR experts' experience and thus not provided directly by employees. Besides sample size, it was not possible to control the respondent to the questionnaire during the quantitative research. Questionnaires were sent to HR managers, so the quality of collected data depends upon a single person's expertise (response bias). The research included both joint-stock companies and limited liability companies so some forms of compensation (e.g. equity-based remuneration) are more often applicable by public limited companies. The research included only medium and large-sized companies thus research results might not be representative of reward practices in small companies.

In terms of recommendations for practitioners, it must be emphasized that unlike in other countries where variable compensation will be broadly accepted by employees, companies operating in Croatia must be aware that some employees might have a negative attitude towards variable pay. This might be especially the case with individual variable pay, due to tradition, reward management heritage and dominant work values. Still, incentive pay has become a common component of compensation packages and the level of acceptance of variable compensation can be controlled/improved through appropriate preparations and other HRM practices.

ACKNOWLEDGEMENT

This paper is based on research funded by Croatian Science Foundation, project 5600 CompCroEU

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PERSPEKTIVE PRIMJENE VARIJABILNOG NAGRAĐIVANJA U HRVATSKOJ:
POSTOJI LI JAZ IZMEĐU OČEKIVANJA ZAPOSLENIKA I STVARNOG STANJA?

Summary

Varijabilno nagrađivanje omogućava brojne prednosti za zaposlenike i poslodavce, međutim, krajnji učinak ovog sustava nagrađivanja ovisi o stavovima i preferencijama zaposlenika prema takvom načinu nagrađivanja. Uzimajući u obzir činjenicu da su se sustavi nagrađivanja u Hrvatskoj tradicionalno temeljili na principu jednakosti plaća, cilj ovog rada je istražiti ulogu varijabilnog nagrađivanja iz perspektive zaposlenika i poslodavaca. Provedeno je Delphi istraživanje o stavovima zaposlenika prema varijabilnom nagrađivanju te kvantitativno istraživanje praksi varijabilnog nagrađivanja. Nalazi Delphi istraživanja ukazuju na izostanak konsenzusa o preferencijama zaposlenika u pogledu varijabilnog nagrađivanja u Hrvatskoj. Istraživanje praksi nagrađivanja u hrvatskim poduzećima pokazalo je da je neki oblik individualnog varijabilnog nagrađivanja primijenjen kod većine istraživanih poduzeća. Utvrđen je mogući jaz između preferencija zaposlenika prema varijabilnom nagrađivanju i stvarnih praksi nagrađivanja te se stoga u radu identificiraju preduvjeti za uspješnu primjenu varijabilnog nagrađivanja.

Ključne riječi: plaća, varijabilno nagrađivanje, preferencije u nagrađivanju