COMPENSATION SYSTEMS IN EUROPEAN TRANSITION STATES: AN ANALYSIS OF PATH DEPENDENCE, ISOMORPHIC EFFECTS, AND AGENCY-BASED DETERMINANTS

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<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRIC</td>
<td>Brazil, Russia, India, China</td>
</tr>
<tr>
<td>BUX</td>
<td>Budapest Stock Index</td>
</tr>
<tr>
<td>CEE</td>
<td>Central and Eastern Europe</td>
</tr>
<tr>
<td>CEO</td>
<td>chief executive officer</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>HRM</td>
<td>human resource management</td>
</tr>
<tr>
<td>IHRM</td>
<td>international human resource management</td>
</tr>
<tr>
<td>MNC</td>
<td>multinational corporation</td>
</tr>
<tr>
<td>PX</td>
<td>Prague Stock Exchange Index</td>
</tr>
<tr>
<td>SOE</td>
<td>state-owned enterprise</td>
</tr>
<tr>
<td>WIG 20</td>
<td>Warsaw Stock Exchange Top 20 Index</td>
</tr>
</tbody>
</table>
1. Introduction

Compensation management represents not only a key organizational practice, but is also one of the most extensively investigated fields of management science. Academic work on both monetary and non-monetary incentives dates back to as long as a century ago (Myers, 2011; Wagner-Tsukamoto, 2007). Recently, there has been a growing body of research in the field of international rewards, ranging from research on expatriate pay (Reynolds, 1986) to transnational compensation (Festing, Eidems, & Royer, 2007). To date, research on the topic has been dominated by studies conducted in industrialized economies—countries with stable institutional environments. However, multinational corporations (MNCs) are often faced with the challenge of designing and implementing pay systems “within the context of shifting political, economic, and social conditions” (Lowe, Milliman, De Cieri, & Dowling, 2002, p. 46), or in countries with less stable institutional contexts, such as emerging economies.

In this respect, the analysis of the impact of institutional environments on organizations is especially relevant in European post-state socialist economies, which are often referred to as European transition states (Brewster & Bennett, 2010; Hoskisson, Eden, Lau, & Wright, 2000). It is not only political, social, and economic transformation in these countries, but also the sheer magnitude of this transformation from state-socialist regimes to democratic and free market societies—often referred to as “institutional upheaval” (Newman, 2000; Roth & Kostova, 2003)—which makes research in this field especially challenging. Indeed, the pace of transformation from centrally planned economic organization to free market economies in the transition countries of Central and Eastern Europe (CEE) is stunning. However, now, more than two decades after the fall of state-socialist regimes in Europe, research on the evolution and explanations of specific compensation practices in the region is still scarce. The extant literature is dominated by mainly descriptive work (cf., for instance, Koubek, 2009; Listwan, Pocztowski, & Stor, 2009; Poór, 2009) or studies referring to the cultural explanations of particularities in organizational practices in CEE (Kiriazov, Sullivan, & Tu, 2000; Tung & Havlovic, 1996) consistent with the notion of national culture developed by Hofstede (1980). While the contribution of these studies to our understanding of organizational practices and country-specific idiosyncrasies should by no means be underestimated, there is a need for
alternative explanations, which could deliver answers on the roots, evolution, and current determinants of compensation practices in the CEE region.

The present dissertation is an attempt to address this research deficit. In doing so, I focus on a wide range of compensation practices included in the notion of total rewards (cf., for instance, Manas & Graham, 2003) in CEE transition states: Base pay, variable and non-monetary compensation, and share-based pay schemes. Taking into consideration the heterogeneous nature of organization and management studies as an eclectic field (Corley & Gioia, 2011), this dissertation features a multifaceted analysis, which uses various—both economic and sociological—theories and research methods to probe into the area of pay systems in CEE. In doing so, the overall work was conceived as an attempt to extend the application of the relevant theoretical approaches used in the academic fields of human resource management and organization studies to the context of European transition states. In the following subchapters I describe respective research papers which build the body of the present dissertation, including the research questions, theoretical backgrounds, and methods used.

1.1. DESCRIPTION OF THE PAPERS

This dissertation is based on five papers comprising one published book chapter (Festing, Engle, Dowling, & Sahakiants, 2012), three published journal articles (Festing & Sahakiants, 2010b, 2011, 2013), and one research paper currently under review in the *International Journal of Human Resource Management*. All the papers were written in co-authorship with my supervisor Professor Marion Festing and—in the case of *Paper I*—additionally in co-authorship with Professor Allen D. Engle, Sr. and Professor Peter Dowling. Therefore, in the following introduction, discussion, and conclusion sections of this dissertation, I will refer to these studies from the first-person plural perspective (“we”), meaning all the co-authors of the respective collaborative work. However, the first-person singular pronoun (“I”) will be used to summarize, discuss, and draw conclusions on the papers.

Table 1-1 presents a summary of articles constituting the dissertation. The papers are listed in the order in which the respective studies were conducted.
Table 1-1. Summary of papers composing the dissertation

<table>
<thead>
<tr>
<th>Paper Nr.</th>
<th>Full reference</th>
<th>Type of paper</th>
</tr>
</thead>
</table>

In the following, these papers will be referred to according to the consecutive numbering used in Table 1-1 (e.g., Paper I or Paper V).

The first two publications are conceptual papers presenting the particularities and research on comparative international rewards and theoretical explanations of compensation systems in CEE. The remaining three papers introduce the results of
empirical research on two different aspects of rewards management in CEE: Total pay systems in the foreign subsidiaries of multinational corporations (MNC) and share-based compensation schemes in CEE publicly traded companies.

1.1.1. Conceptual papers

The first paper presented in this dissertation is a book chapter dedicated to the discussion of comparative international compensation from the total rewards perspective (Manas & Graham, 2003). Here, we emphasize the importance of a special consideration of national contexts as a major determinant of pay practices. It is suggested that local contexts should be analyzed at different levels of analysis, including individual, organizational, and environmental variables. The literature review on international and comparative pay is supported by official statistical and compensation benchmark data provided by Hewitt Associates.

The second paper deals with more specific issues related to international compensation, namely to the adoption of pay practices in CEE-based companies on the examples of the Czech Republic, Poland, and Hungary, which were selected for this and two further studies (Papers III and IV) as being representative of the CEE region in general (cf. Paper II for an explanation of the rationale behind country choice). Based on a literature review and compensation data provided by Hewitt Associates, we analyzed major impact factors affecting the transfer of Western-type compensation practices, such as high-performance variable pay schemes, by paying special attention to the path dependence (Deeg, 2005; Sydow, Schreyögg, & Koch, 2009; Whitley & Czaban, 1998) of organizational practices and mechanisms of isomorphic institutional change (DiMaggio & Powell, 1983). Efficiency or rational choice considerations (Abrahamson, 1991) were additionally introduced to separate market-based arguments from the remaining institutional factors.

1.1.2. Empirical papers

The empirical papers included in this dissertation build on the assumptions of the first two conceptual articles (Papers I and II), including a specific consideration of total rewards components in international pay comparisons, the existence of mechanisms promoting the isomorphism of organizational practices in CEE companies, and the organizational path
dependence of pay systems in the region. These empirical studies were conceived to contribute to the understanding of various aspects of total rewards management in CEE:
The general path-dependent evolution of pay practices in CEE (Paper III), share-based practices in listed publicly traded companies in the Czech Republic, Poland, and Hungary (Paper IV), and executive share-based pay in Polish listed companies (Paper V).

Table 1-2 presents the research objects, theoretical backgrounds, and methods used in the empirical papers and described in the following subsections.

**Table 1-2: Summary on empirical studies**

<table>
<thead>
<tr>
<th>Paper Nr.</th>
<th>Research object</th>
<th>Theoretical background</th>
<th>Data collection method</th>
<th>Data analysis method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper III</td>
<td>Evolution of compensation systems in the Czech Republic, Poland, and Hungary</td>
<td>Path dependence theory</td>
<td>Interviews, secondary data (company documents, academic research)</td>
<td>Exploratory thematic analysis (within case study design)</td>
</tr>
<tr>
<td>Paper IV</td>
<td>Share-based pay schemes in the Czech Republic, Poland, and Hungary (in listed public companies)</td>
<td>Neo-institutional (isomorphism) theory</td>
<td>Secondary data (company annual reports)</td>
<td>Content analysis</td>
</tr>
<tr>
<td>Paper V</td>
<td>Executive share-based compensation in Poland (in listed public companies)</td>
<td>Principal-agent theory, neo-institutional (isomorphism) theory</td>
<td>Secondary data (company annual reports)</td>
<td>Logistic regression analysis</td>
</tr>
</tbody>
</table>

**1.1.2.1. Research questions**

As described above, the research questions underlying the empirical papers cover a broad area of knowledge pertaining to compensation systems in the CEE region. They range from more general issues on the developmental paths (Sydow et al., 2009) of compensation systems and the reasons for the persistence of historical legacies with respect to pay
practices, to more specific questions relating to the determinants of current share-based pay practices, which have an at least novel or even “institutionally contested” (Sanders & Tuschke, 2007) character in post-state socialist economies. These research questions are complementary in a sense that they address various aspects of compensation systems in the CEE region with different levels of organizational continuity: From general pay practices—including basic and variable pay, social benefits, and other non-monetary rewards, which existed prior to transformation and underwent at times radical transformation thereafter—to completely novel practices such as share-based pay, which did not exist in the state-socialist period.

_Paper III_ presents an analysis of pay practices in CEE companies from a dynamic evolutionary perspective, following the often cited notion of the path dependence of the transformation process and organizational practices in CEE (Aguilera & Dabu, 2005; Czaban, Hocevar, Jaklic, & Whitley, 2003; Stark, 1992; Whitley & Czaban, 1998), and seeks to answer the following questions:

- What major institutions during the state-socialist period influenced and formed a specific path with respect to compensation management in CEE?
- What are the reasons for path continuity during the transformation period?
- What are the limits and necessary conditions for changing historically determined organizational practices?

_Paper IV_ addresses the following research question:

- What are the determinants of share-based compensation schemes in CEE?

Here, the institutional determinants of share-based compensation schemes in the Czech Republic, Poland, and Hungary—related mostly to national regulations—are explored.

In _Paper V_, we statistically analyze the impact of factors such as state ownership, financial industry affiliation, ownership concentration, family ownership, and organizational size, which are institutional and agency-based variables derived from extant literature on the topic. While the main research question is similar to that of _Paper IV_, with the only difference being that this paper focuses on executive share-based pay, we aim at answering two additional major research questions:
Can the assumptions of the standard principal-agent theory be used to explain the use of executive share-based pay in Poland?

What are the most important institutional determinants affecting executive equity-based compensation schemes in Poland?

1.1.2.2. Theoretical backgrounds

With respect to the choice of theoretical backgrounds, Mintzberg suggested: “[W]e must choose our theories according to how useful they are, not how true they are” (2005, p. 356). Following this rationale, we applied three major theories, which are—as I believe—the most suitable for probing into the specific aspects of pay in CEE described above. First of all, the path dependence theory (David, 1994; Deeg, 2005; Pierson, 2000; Sydow et al., 2009; Vergne & Durand, 2010) was used in Paper III to analyze and explain the evolution of pay practices in CEE subsidiaries of a large North-American MNC. Here, the understanding of organizational path dependence is consistent with the definition given by Sydow, Schreyögg, and Koch (2009), according to which organizational path dependence is “a rigidified, potentially inefficient action pattern built up by the unintended consequences of former decisions and positive feedback processes” (p. 696). In this respect, Deeg (2005) emphasized the predictable character of path-dependent “pattern[s] of behavior” (p. 29). However, the analytical power of the path dependence theory lies not only in predicting behavior, but also in explaining the antecedents—“typical strategies, routine approaches to problems, and shared decision rules” (Deeg, 2005, p. 29)—of an organizational path. Here, self-enforcing mechanisms such as coordination, complementary, learning, and adaptive expectation effects (Deeg, 2005; Sydow et al., 2009) play a key role in the creation and preservation of a path. (For a discussion on the path dependence theory, including self-reinforcing mechanisms, cf. Paper III).

The second theoretical approach used in empirical Papers IV and V to explain institutional pressures promoting the application of share-based compensation in CEE in general and executive equity-based pay in Polish public companies in particular is the isomorphism theory elaborated by DiMaggio and Powell (1983). According to this theory, organizations are exposed to pressures towards isomorphism within their organizational fields, i.e., with respect to “organizations, that, in the aggregate, constitute a recognized
Introduction

area of institutional life” (DiMaggio & Powell, 1983, p. 148). These isomorphic effects are induced by coercive, mimetic, and normative mechanisms of institutional change, which correspond to the regulative, cultural-cognitive, and normative conceptions or pillars of institutions (cf. Table 1-3 below) conceptualized by Scott (2001, 2003).

### Table 1-3. Pillars of institutions

<table>
<thead>
<tr>
<th></th>
<th>Regulative</th>
<th>Normative</th>
<th>Cultural-Cognitive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basis of compliance</td>
<td>Expedience</td>
<td>Social obligation</td>
<td>Taken-for-grantedness</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shared understanding</td>
</tr>
<tr>
<td>Basis of order</td>
<td>Regulative rules</td>
<td>Binding expectations</td>
<td>Constitutive schema</td>
</tr>
<tr>
<td>Mechanisms</td>
<td>Coercive</td>
<td>Normative</td>
<td>Mimetic</td>
</tr>
<tr>
<td>Logic</td>
<td>Instrumentality</td>
<td>Appropriateness</td>
<td>Orthodoxy</td>
</tr>
<tr>
<td>Indicators</td>
<td>Rules</td>
<td>Certification</td>
<td>Common beliefs</td>
</tr>
<tr>
<td></td>
<td>Laws</td>
<td>Accreditation</td>
<td>Shared logics of action</td>
</tr>
<tr>
<td>Sanctions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basis of legitimacy</td>
<td>Legally sanctioned</td>
<td>Morally governed</td>
<td>Comprehensible</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Recognizable</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Culturally supported</td>
</tr>
</tbody>
</table>


Although we integrated the path dependence perspective as explaining resistance to change and institutional isomorphism considerations relating to sources of change, in conceptual Paper II, and notwithstanding the fact that the theories of institutional isomorphism and path dependence are sometimes considered to be related theories (Kominek, 2009; Sydow & Schreyögg, 2013), we strictly separated these two theoretical perspectives in our empirical work presented in Paper III. For instance, assumptions of the neo-institutional theory could have been used to analyze the process of isomorphic change within the path-building process during the state-socialist period. However, I believe that the use of the isomorphism theory would have significantly complicated
reasoning without significantly contributing to the analysis of the ultimate research question, i.e., the path-dependent evolution of compensation practices in CEE.

Finally, the principal-agent theory (Jensen & Meckling, 1976) was used to probe the organizational and contextual determinants of executive share-based compensation schemes in Polish listed public companies (Paper V). According to the assumptions of this theoretical approach, principals (owners, shareholders, etc.) use long-term incentives for agents (managers, directors, etc.) to mitigate goal conflicts between these two parties (Eisenhardt, 1989). The respective theoretical assumptions have been used widely in research related to executive, including share-based, compensation (Filatotchev & Allcock, 2010; Pennings, 1993).

However, recently, the validity of standard agency assumptions in a context beyond the industrialized world has been increasingly questioned (McCarthy & Puffer, 2008; Wright, Filatotchev, Hoskisson, & Peng, 2005). As a result, there have been calls to use a combination of the principal-agent and institutional theories to study organizational practices in emerging economies (Kang & Yanadori, 2011; Wright et al., 2005), and thus in CEE transition countries. These calls are based on the assumption of the different nature of corporate governance conflicts in CEE, which have been identified as principal-principal conflicts (Yoshikawa & Rasheed, 2010; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). According to Young et al., these conflicts arise “between controlling shareholders and minority shareholders [and] result from concentrated ownership, extensive family ownership and control, business groups structures, and weak legal protection of minority shareholders” (2008, p. 196)—features, as a whole typical of emerging economies as opposed to industrialized countries in general and the USA, the birthplace of the principal-agent theory, in particular. The difference between standard principal-agent conflicts and principal-principal conflicts is presented in Figure 1-1 below.
Figure 1-1. Principal-agent and principal-principal conflicts

Source: Adapted from Young et al. (2008, p. 200).

The intensity of principal-principal conflicts seems to be dependent on institutional antecedents—such as formal and informal institutions—and ownership concentration (Young et al., 2008), which can be regarded as representing the regulative, normative, and cultural-cognitive aspects of local institutional contexts (Scott, 2001) and thus relate to the coercive, mimetic, and normative isomorphic mechanisms described by DiMaggio and Powell (1983).

While the first two theoretical perspectives described above (theories of path dependence and institutional isomorphism) can be considered as related, the principal-agent theory is different from both the path dependence and neo-institutional approaches in at least two ways. Firstly, unlike the neo-institutional and path dependence theories, which primarily represent macro perspectives (Heikkila, 2011; McKinley & Mone, 2003), the principal-agent theory concentrates on the micro level. Secondly, while the path dependence and neo-institutional theories represent sociological approaches to organizational theory, the agency theory is classified into the area of organizational economics (Swedberg, 2003). However, our decision to apply a combination of neo-institutional and principal-agent theories in Paper V was based initially on the quite extensive use of these two theories to study organizational phenomena in emerging economies (Douma, George, & Kabir, 2006; Kang & Yanadori, 2011), which can serve as proof of both of these theoretical approaches’ compatibility.
1.1.2.3. Methods used

According to Buchanan & Bryman (2007), method choices in organizational research should be contingent on a number of considerations. Apart from the research objectives, these considerations include epistemological positions and paradigms, as well as organizational, historical, personal, and other properties related to focal organizations. Similar to the choice of the theoretical perspectives described above, our decisions on the methods used for our empirical work were problem-driven rather than paradigm-driven (for a discussion on the shift from paradigm-driven to problem-driven work in organization theory, cf. G. F. Davis & Marquis, 2005). As Gioia and Pitre wrote: “[T]raditional positivist theory building and deductive approaches... are relevant when issues are defined according to their basic assumptions. However, using different theory-building approaches to study disparate issues is a better way of fostering more comprehensive portraits of complex organizational phenomena” (1990, p. 587).

With respect to the “ultimate goal of analysis” (Shah & Corley, 2006), the empirical work presented in this dissertation is based on the assumptions of two of the four main paradigms (Burrell & Morgan, 2005): The interpretive and functionalist approaches. While the first two empirical studies presented in Papers III and IV are qualitative exploratory studies based on rather limited sample sizes characteristic of qualitative research, the last paper, Paper V, is structured as a classical theory-testing study based on a final sample of 362 companies (cf. Table 1-4 below).

It should be mentioned, though, that the divide between the functionalist-interpretive paradigms underlying the papers included in this dissertation is more complex than the mere differentiation between the quantitative and qualitative methodologies sometimes suggested in the literature (cf. Shah & Corley, 2006). In accordance with the differentiation between positivist/post-positivist and non-positivist (non-critical) paradigms suggested by Brand (2009), both Papers III and IV, presenting qualitative research, build partly on post-positivist assumptions, not only with respect to the post-positivist methodology, which has relied increasingly on qualitative methods (Guba & Lincoln, 1994), but also ontologically and epistemologically. For instance, the path dependence of compensation practices in CEE explored in Paper III reflects the “functionalist logic [which] identifies predictable self-reinforcing processes” (Mahoney, 2000, p. 519), and it can thus be partly attributed to the functionalist paradigm. On the
other hand, the socially constructed nature of path creation (Garud, Kumaraswamy, & Karnøe, 2010) fits our research into the framework of the non-positivist—especially, interpretative—paradigm (Brand, 2009).

### Table 1-4. Descriptions of samples

<table>
<thead>
<tr>
<th>Paper Nr.</th>
<th>Interview partners/Companies studies</th>
<th>Initial sample</th>
<th>Final sample</th>
</tr>
</thead>
</table>
| Paper III | **Global level (Headquarters):** managers at the compensation and benefits department, vice-president  
**Regional level:** employee of the shared-services unit  
**Local level (subsidiaries):** representatives of local top management, HR management, and employee representatives | 13 | 13 |
| Paper IV  | Public companies representing the major stock market indices of the Warsaw (WIG 20), Prague (PX), and Budapest (BUX) stock exchanges (as of December 2, 2010) and incorporated in the respective CEE countries. | 46 | 32 |
| Paper V   | Public companies listed on the Warsaw Stock Exchange on December 12, 2011 and registered in Poland. | 426 | 362 |

The research presented in *Paper III* builds on an embedded single case study (Yin, 2003) based on interviews and secondary data. The major rationale for choosing this methodological approach was the necessity to understand and interpret the evolution of organizational practices starting from the respective systems prior to transformation. The data analysis technique used in this study can be described as exploratory thematic analysis (Onwuegbuzie & Teddlie, 2003). Our research based on multiple interviews conducted with actors in different units of an embedded case study, the analyses of company documents, and academic research on historical and current compensation practices in CEE, had an iterative character, which is a common feature of analysis within case study design (Yin, 2003).

In the second empirical article (*Paper IV*), a qualitative study of share-based compensation schemes in Czech, Hungarian, and Polish companies belonging to major
stock indices was performed based on the content analysis (Krippendorff, 2013) of company annual reports. Also in this case, we aimed at exploring those factors affecting the analyzed compensation schemes, rather than at theory testing.

On the contrary, the research presented in Paper V builds on logistic regression (Hosmer & Lemeshow, 2000) tests of hypotheses based on the assumptions of the agency and neo-institutional theories. The independent variables for this study were derived from studies conducted in the contexts of industrialized economies (Alves, 2011; Berrone, Makri, & Gomez-Mejia, 2008; Pendleton, 2006; Porac, Wade, & Pollock, 1999; Rankin, 2010; Ryan & Wiggins, 2000; Yoshikawa & Rasheed, 2010) and the extant research on the particularities of corporate governance systems in emerging economies—including CEE transition states (Peng, Wang, & Jiang, 2008; Weinstein & Obloj, 2002; Young et al., 2008). By selecting this approach, we aimed at verifying the applicability of the agency theory in CEE post-state socialist economies, i.e., within specific institutional settings in the region.

1.2. STRUCTURE OF THE DISSERTATION

Following the introduction section of the present dissertation, the bibliographical information on each of the five papers is provided. In the discussion section, I summarize and discuss the main findings, limitations, and avenues for future research. Here, the discussion is organized according to the theoretical perspectives used in the respective papers: Path dependence, isomorphic pressures, and agency considerations. Finally, I draw conclusions and suggest implications for academic research and practice.
2. Paper I. HRM Activities: Pay and Rewards

3. Paper II. Compensation Practices in Central and Eastern European EU Member States—An Analytical Framework Based on Institutional Perspectives, Path Dependencies, and Efficiency Considerations


DOI: 10.1002/tie.20325.
4. Paper III. Path-Dependent Evolution of Compensation Systems in Central and Eastern Europe: A Case Study of Multinational Corporation Subsidiaries in the Czech Republic, Poland and Hungary


DOI: 10.1016/j.emj.2013.01.005.
5. Paper IV. Determinants of Share-Based Compensation Plans in Central and Eastern European Public Companies: An Institutional Analysis

6. Paper V. The Use of Executive Share-Based Compensation in Poland: A Study Based on Institutional and Agency Theory Perspectives


Available from the author upon request.
7. Discussion

The research presented in the papers constituting this dissertation shows that idiosyncrasies found within compensation systems in CEE countries can be explained effectively using various theoretical perspectives and methodological approaches. In the following, I will discuss the results of the studies by showing the interrelation between the single papers of the present dissertation and by addressing each of the theoretical approaches used in the above studies, as well as present limitations and avenues for future research.

7.1. DISCUSSION OF RESULTS

Figure 7-1 below presents the major results and relationships between the findings of the papers constituting the present dissertation.

The analysis of international comparative rewards presented in Paper I showed that international comparisons of various pay systems should be performed under the specific consideration of both the monetary and non-monetary elements of total rewards and take into account national contexts. This holistic view on comparative rewards and the consideration of contextual factors was instrumental in analyzing the adoption of Western-type compensation systems in CEE (cf. Paper II), a region in which pay systems underwent and still undergo transformation with respect to both monetary and non-monetary rewards. Here, the adoption of compensation systems is influenced by isomorphic pressures (DiMaggio & Powell, 1983) resulting mainly from local institutions such as legal regulations and trade unions. International companies represent a further important source of change in CEE. The influence of sources of isomorphic change is contingent on specific labor market conditions, particularly with respect to skilled labor shortages, and the path dependence (Flanagan, 1998; Whitley & Czaban, 1998) of the HR function in CEE organizations. Furthermore, the intensity of this path dependence, which denotes the historical legacies of state-socialist organizations, varies depending on company characteristics within the four major organization types present in segmented post-state socialist capitalist systems (Martin, 2008): SOEs, privatized, de novo, and international companies.
While the analysis presented in Paper II shows—along with the need to consider specifically institutional influences on organizational practices—the primary importance of the notion of path dependence for the study of pay practices in CEE mainly as a force resisting organizational change promoted by isomorphic mechanisms, Paper III explores the nature and origin of organizational path dependence in CEE. However, the analysis and results of this paper go beyond the idea of HR function path dependence in CEE companies, developed in Paper II, and deliver insights into the pre-transformation evolution of the organizational path with respect to compensation practices in CEE as well as existing conditions supporting this specific developmental path during the
transformation period. Here, the analysis covers historical developments with respect to both monetary and non-monetary pay elements, in accordance with the approach presented in *Paper I*.

*Papers IV* and *V* build partially on the findings of conceptual *Papers I and II*, in the first instance with respect to the requirement to consider specifically institutional contexts (in particular, relating to national legislations). The results of *Paper V* confirm statistically the major finding of *Paper IV*, which demonstrates the impact of state ownership on the existence of share-based compensation plans in Poland. However, the impact of the state, described in *Paper V*, goes beyond mere legislatively mandated limitations on executive pay levels and structures (according to the results of *Paper IV*) and also pertains to share-based compensation in companies in which national states have only minority shares—thus confirming the strong informal influence of the state in (mainly) post-privatization companies in emerging economies reported in the literature (Dharwadkar, George, & Brandes, 2000). Another important finding of *Paper V* is the significant impact of company size on the existence of equity-based executive pay in Poland, which is in line with assumptions based on the standard principal-agent theory (Jensen & Meckling, 1976). These and a further partial effect related to financial industry affiliation are discussed in the following subchapters, which are structured in line with the major theories used in the papers constituting this dissertation.

### 7.1.1. Results related to the path dependence perspective

In conceptual *Paper II* we analyzed the notion of the HR function’s path dependence, which—as described above—could be one of the factors facilitating or hampering the adoption of specific compensation practices. This assumption of path dependence, used in a rather metaphorical sense (Sydow et al., 2009), i.e., denoting the legacies of pre-transformation organizational practices, was developed further in *Paper III*. The latter paper, in which we specifically considered the complementary effects of self-reinforcing mechanisms (Deeg, 2005; Sydow et al., 2009), explores the evolution of the developmental path with respect to compensation practices in CEE. Our analysis showed that although the major complementary institutions which enhanced and sustained the path in the state-socialist period—such as central wage planning and an extensive socialist-type welfare system—do not exist in their original form in CEE transformation
countries, the path dependence of organizational practices is still maintained by a number of institutions, including national laws and trade unions. Furthermore, based on our findings, we suggest several possible ways to break the paths, which include both exogenous (headquarters of MNCs or international management consulting companies) and endogenous (generational change or the professionalization of the HR function) sources.

Although the theory of path dependence was not applied explicitly in our investigations presented in Paper V, one more interesting result of this study could also be analyzed using this theoretical approach, namely the significant influence of the state on pay decisions in companies co-owned by the state. However, the findings of the study with respect to the informal influence of the state—through former managers of SOEs employed by the companies, activities of current state officials in management or on supervisory boards, etc.—could reflect organizational path dependence in CEE not exclusively with respect to share-based compensation in listed public companies but rather in relation to decision-making and organizational processes in general. This phenomenon represents a challenging avenue for future research, as described in subchapter 7.3 below.

### 7.1.2. Results related to the isomorphism theory

The assumptions of the neo-institutional, or, more precisely, the isomorphism theory developed by DiMaggio and Powell (1983), were applied in Papers II, IV, and V. In Paper II, this perspective was used to conceptualize the analytical framework for the study of compensation practices in CEE countries, especially pertaining to the transfer of Western-type—notably, pay-for-performance—pay schemes. Building on an extant literature review, we attributed the impact of national and EU legislation, and well as trade unions to a coercive impact; the influence of foreign investors or multinational corporations was identified as mimetic pressure, while attitudes to the HR function in CEE enterprises were determined as a normative impact on pay practices in CEE.

This conceptual differentiation between mechanisms of isomorphic change was adopted in the analysis of share-based compensation in CEE listed public companies (Paper IV). Here, we found that the coercive impact of national states was the most powerful force affecting the implementation of the respective schemes in public
companies, represented on the major stock exchange indices in the countries analyzed. This finding was refined further by the results of the last paper in this dissertation: The impact of the state in the CEE country studied (Poland) is not so much coercive but more subtle—rather mimetic or normative—in nature. However, the expected impact of financial industry affiliation, which could be attributed either to mimetic or normative mechanisms of organizational isomorphism, was significant only when company size was not controlled.

7.1.3. Results related to the agency perspective

The results of Paper V, which builds on a combination of agency and neo-institutional theoretical approaches, are interesting in a number of ways. On the one hand, only one of our agency-based hypotheses proved to be significant, namely the one related to the impact of company size on the existence of executive share-based compensation. On the other hand, no significant impact of the two remaining variables based on this theoretical perspective, i.e., ownership concentration and family as the major shareholder, could be found.

I suggest that the reason for the insignificance of the latter two results and the significance of the impact of organizational size can be explained by the existence of principal-principal conflicts characteristic of corporate governance systems in emerging economies (cf. subsection 1.1.2.2 of this dissertation). On the one hand, it seems that the magnitude of principal-principal conflicts in CEE is not contingent on either ownership concentration or the fact that the company is predominantly owned by a family, but is actually dependent on more subtle, informal power constellations. On the other hand, the findings of Paper V with respect to company size suggest that even in CEE companies with predominant principal-principal conflicts, there is still a place for principal-agent conflicts between the controlling principal and the manager controlled by this principal, and these are more acute in companies whose operations are more complex. Figure 7-2 below shows both principal-principal and principal-agent relations in CEE public companies.
Conversely, the bigger the company in terms of sales, the more complex its operations. Thus, controlling principals tend to increasingly utilize long-term incentives in line with the standard principal-agent theory (Jensen & Meckling, 1976).

Overall, although all the papers constituting this dissertation used different theoretical lenses and methods to study various aspects of compensation systems in CEE post-state socialist economies, they have one feature in common with respect to the major results—they all develop respective theories for application in CEE transition states in particular and emerging economies in general. Thus, the dissertation as a whole contributes to the fields of human resource management and organization studies, especially with respect to the analysis of pay practices in post-state socialist economies. Several specific implications both for theory and practice are presented in the conclusion section of this dissertation.

7.2. LIMITATIONS

Research presented in this dissertation has a number of limitations relating mostly to journal articles (Papers II-V). Firstly, in Papers II and V, we used a combination of various theories, including path dependence and neo-institutional perspectives in the first case and neo-institutional and principal-agent theories in the second case, to build an analytical framework for the study of compensation systems in CEE and to study executive share-based pay systems in Poland, without testing the compatibility of assumptions underlying the respective theoretical approaches. Secondly, the data used for our empirical research in Papers IV and V reflect the situations at specific moments in time, and—strictly
speaking—can deviate from general trends. Thirdly, in all the empirical papers, our research is based on specific company types: Subsidiaries of a North-American MNC in Paper III, locally based listed public companies in Poland, Hungary, and the Czech Republic analyzed in Paper IV, and the same company forms in Poland studied in Paper V. However, analyses of other company types (i.e., SOEs in Paper III or limited liability companies in Papers IV and V) or CEE subsidiaries as part of MNCs from other countries of origin (e.g., western, southern or northern European on the one hand, and BRIC countries on the other hand) could deliver results different from those presented in this dissertation.

Finally, there are several limitations related to the methods employed. For instance, although we sought to minimize the risks of validity problems related to retrospective interviews, such as faulty memory and rationalization after the fact (Forgues & Vandangeon-Derumez, 2001), it is still possible that the findings of Paper III are still not completely free of respective errors, for instance due to the fact that our interview partners might have presented past events in a way different to what actually occurred. However, as all the information presented by our interview partners has been carefully verified during consecutive interviews and by using secondary data, I believe that the risk of such errors is indeed very small. Further limitations relate to the fact that Paper IV is based only on an analysis of a rather small number of companies—below the levels necessary for statistical analysis which could be used to verify the respective findings. Lastly, in Paper V, we used a dichotomous dependent variable to denote the existence of executive share-based compensation plans, and thus were not able to analyze either the monetary value of respective schemes or the percentage of share-based pay in the total compensation packages of respective directors. However, this limitation reflects data quality resulting from the current disclosure standards in Poland rather than the method choice made by the authors. I hope, however, that the further development of compensation disclosure quality in Poland and other CEE countries will allow for a study of share-based compensation beyond the mere existence of such pay schemes.

7.3. AVENUES FOR FUTURE RESEARCH

As outlined in Paper I, a very important challenge for comparative compensation research is the holistic analysis of multiple components constituting total rewards in respective countries, including both monetary and non-monetary incentives. There is a need for
more extensive use of this assumption in cross-national research on the determinants of pay practices, rather than focusing on absolute pay levels or single compensation elements.

Another challenging avenue for future research is a replication of the studies presented in this dissertation to different company types, various countries of origin of the MNCs studied, and further CEE countries. For instance, more dependence on historical developmental paths is expected to be found in SOEs or in joint ventures with state-owned partners (Festing & Sahakians, 2010a). On the other hand, replications of these studies in other CEE economies as well as Eastern European countries of the former Soviet Union would allow one to generalize the results of all three empirical studies of this dissertation to European transition states in general.

A very challenging avenue for further research relates to the findings of Paper V. As already mentioned in section 7.1.1 of this dissertation, I suggest that the path dependence theory might be a useful tool for studying the informal influences of national states on compensation practices in post-privatization CEE firms. Here, an in-depth historical analysis of management structures and decision-making processes could help to shed light on the role of the state in post-privatization firms operating in post-state socialist transition economies.

In the following final chapter, I present the theoretical contributions of the research presented in this dissertation and its implications for managerial practice.
8. Conclusion

To quote Van de Ven, “[a] central mission of scholars and educators in professional schools of management... is to conduct research that contributes knowledge to a scientific discipline, on the one hand, and to apply that knowledge to the practice of management as a profession, on the other” (1989, p. 486). In the following subchapters I will outline the theoretical and practical contributions of the present dissertation.

8.1. THEORETICAL CONTRIBUTIONS

Although the theoretical contributions of the research presented in this dissertation are manifold, they have one thing in common: Based on the assumptions of Paper I and various theoretical approaches, they all seek to exploit and combine different theoretical approaches in order to study compensation practices in CEE.

Firstly, in Paper II, we took a first step towards integrating path dependence and neo-institutional theories for a study of the transfer of pay practices to CEE, a region which had to rebuild national institutional frameworks after the collapse of state-socialist regimes. Here, the promotion of novel organizational practices by both endogenous and exogenous sources of isomorphic change seems to be hampered by historically determined developmental paths, described by the notion of path dependence. Secondly, Paper III is an example of the application of path dependence theory to study organizational practices in CEE. This study contributed to the discussion on path continuity after a considerable exogenous shock, such as the collapse of state-socialist regimes in CEE as well as the possibility and limits of breaking an organizational path. Thirdly, the analysis presented in Paper IV can be regarded as a good example of utilizing the neo-institutional theory in a study of equity-based pay systems under the specific consideration of regulatory contexts. Finally, in Paper V, we demonstrated the usefulness of a combination of standard principal-agent and neo-institutional approaches to studying executive compensation practices in Poland, first of all, in view of principal-principal conflicts and informal influences on corporate decision-making in the region. Our results showed that—unlike agency relationships in industrialized countries—principal-agent
relations in European transition states are guided increasingly by informal influences embedded in the respective institutional contexts.

Taken together, the studies presented in this dissertation can be viewed as an example of the usefulness of the multiparadigm approach, the value of which is described by Gioia and Pitre as follows: “Given our multiparadigm perspective, we believe it would be useful for theory building to be viewed not as a search for the truth, but as more of a search for comprehensiveness stemming from different worldviews” (1990, p. 587; italics in original). Thus, we were able to profit from “the multiplicity of perspectives that make up our field... and take advantage of the diversity organization theory offers” (Schultz & Hatch, 1996, p. 530) to study the evolution and determinants of compensation systems in European transition states.

8.2. IMPLICATIONS FOR MANAGERIAL PRACTICE

According to Rynes, Bartunek, and Daft (2001), there is “a considerable gap between organizational research findings and management practices” (p. 340), which “has been of longstanding concern to many members of both [the academic and practitioner] communities” (p. 350). Mohrman, Gibson, and Mohrman Jr. (2001) state: “Today’s world heightens the need for useful research. Many organizations grapple with new and poorly understood problems as they adapt to rapidly changing environments... [However,] as organizations adopt new approaches to organizing, organizational science has often lagged behind practice” (p. 357).

Although all of the studies presented in this dissertation are based on the data on organizational practices in existing organizations, and thus—to some extent—represent a snapshot of current practices, I believe that my research offers some important implications for practitioners in the field of HR and for the general management of companies operating in European post-state socialist economies. On the one hand, a systemic scientific analysis of organizational practices may bring to light some relationships and phenomena which are far from obvious to practitioners, thus making research interesting to the non-academic public. Davis defined “interesting” insights as those representing “anything which... stands out in their attention in contrast to the routinized taken-for-granted world of everyday life” (1971, p. 311). On the other hand,
implications for practice are related to the dimension of the practical utility of theories, which, according to Corley and Gioia, “is seen as arising when theory can be directly applied to the problems practicing managers and other organizational practitioners face” (2011, p. 18).

I believe that the research presented in this dissertation offers an alternative perspective to the analysis of organizational phenomena. Rephrasing the assumption put forward by Ghoshal (2005), whereby bad theories have the potential to destroy good practices, the unpremeditated use of good theories with undeniable explanatory power—such as cultural perspectives (Dorfman, Javidan, Hanges, Dastmalchian, & House, 2012; Hofstede, 1980)—may be non-efficient and lead to stereotyping (Milkovich & Bloom, 1998). Conversely, the use of the path dependence, neo-institutional, and agency approaches to organizational analysis can in many cases be instrumental in understanding, predicting, and combating inefficiencies, as well as designing and implementing efficient organizational systems and practices.

In particular, the studies presented in this dissertation could offer practitioners concrete guidance in specific issues related to international compensation. For instance, the total rewards perspective outlined in Paper I could help decision-makers in the field of compensation and benefits in MNCs design and communicate more equitable pay systems throughout the globe and thus contribute to increased distributive justice (Bonache, Sanchez, & Zarraga-Oberty, 2009; Leung, Wang, Zhou, & Chan, 2011) without considering an equalization of basic pay levels worldwide, which is still a fairly unrealistic undertaking in view of the current international differences in standards of living (Gross & Wingerup, 1999).

Moreover, an understanding of the nature and mechanics of path dependence, first outlined in Paper II and developed in Paper III, could help organizations to recognize inefficient systems and processes related to the respective paths, and then devise adequate countermeasures. For example, I suggest that HR managers in formerly state-owned CEE companies should pay special attention to the analysis of existing compensation structures and incentive systems and—keeping in mind often non-transparent decision-making processes with respect to pay in CEE enterprises prior to transformation—focus mainly on procedural justice (Folger & Konovsky, 1989). Moreover, I suggest that—contrary to the still popular belief that the pay preferences of employees
in post-state socialist CEE countries reflect egalitarian attitudes—compensation systems in the region should be designed to increasingly reward individual performance.

Finally, analyses presented in Papers IV and V offer useful insights into the considerable impact of both formal and informal institutions on equity-based compensation systems in CEE, on the one hand, and specific manager-owner relationships in the region, on the other hand. I believe that of primary importance is knowledge on the influence of the state on decision-making in CEE post-privatization companies, especially for HR managers in MNCs that have only recently established operations in the region. An understanding of such—often informal— influences might be useful for decision-makers when selecting indicators and benchmarks for designing efficient long-term incentive packages.

8.3. CLOSING REMARKS

Taken as a whole, the papers constituting the present dissertation represent a single piece of research consisting of interrelated projects and dedicated to the topic of compensation practices in CEE transition states. In this work, I addressed various aspects of reward management in CEE—including both broad-based (i.e., with respect to all employee groups) and narrow-based (i.e., designed for selected employee groups, above all, executives) pay systems—by utilizing several theoretical approaches such as the path dependence, neo-institutional, and principal-agent theories.

I hope that—notwithstanding the limitations of single studies—this article-based dissertation has the potential to contribute not only to the understanding of pay practices in the region, but also to the academic fields of human resource management and organizational studies, on the one hand, and managerial practice, on the other. Still, this work is only a brick in the foundations of theoretical and practical knowledge on pay practices in CEE post-state socialist economies, but it can serve as a basis for further research dedicated to organizational phenomena in European transition states.
References


