

Abstract: VARIABLE PAY SYSTEMS AND/OR COLLECTIVE WAGE BARGAINING? COMPLEMENTS OR SUBSTITUTES?

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Abstract: Variable Pay Systems and Collective Wage Bargaining in the European Union

This wide-ranging study investigates the complex relation between collective wage bargaining (CWB) and variable pay systems (VPS) in the European Union (EU) and whether the two compete or coexist with each other. Using evidence from 18,500 establishments, the evidence shows that the organization form and content of CWB, especially the bargaining level (company, sector, national, or multilevel) and the bargaining units's coordination play a critical role in choosing the adoption and form of VPS. Main takeaways highlight the fact that Vps thrive in the case of company level and ungoverned multilevel bargaining while national level CWB discourages their utilization. The study determines the necessity for institutional innovation to reconcile labor market flexibility and collective employee rights and provides crucial insights to policymakers, employers, and workers' representatives.

Theoretical Background: Connecting Collective Rights and Market Flexibility

The source of tension between CWB and VPS lies in their different aims. CWB, based on joint agreements bargained out through unions and employer organizations, aims to equate wages and working conditions to promote fairness and diminish inequality and to stabilize labor markets. In the past, this model has prevailed in Germany and Sweden where national or sectoral

agreements define minimum standards. By contrast, VPS whose pay is tied to the performance of individuals, teams, or organisations mirror employers' calls for responsiveness in competitive labor markets. Examples are sales commissions (PbR), managerial appraisals (PrP), and profit-sharing (TrP).

Early work positioned CWB and VPS as mutually exclusive, positing that centralized bargaining limits employers' pay customization flexibility. Thus national agreements in France or Belgium tend to establish wage scales and do not leave much scope for performance bonuses. But more recent work points to contextual subtlety. Kalmi et al. (2012) suggest firms implement VPS to counteract rigidity in top-level CWB. So a German manufacturing firm tied to sectoral wage floors may bring in team bonuses (TrP) to remunerate productivity without contravening collective agreements.

The Role of Multilevel Bargaining

A key innovation in this research is the understanding of multilevel CWB, where agreements are reached at several levels (e.g., at the company and sector levels). The authors make a distinction between

Governed systems (eg Germany, Denmark): Local negotiation is framed by higher-level agreements. Examples include Nordic countries using the concept of "wage corridors" to permit company-level variation within sectoral limits.

Ungoverned institutions (e.g., Spain, Italy): Bargaining units are autonomous and result in competing rules. Overlapping regional and industry agreements in Spain frequently compel companies to implement VPS as a way to overcome rigidity.

Categorizing Variable Pay Systems

The research categorizes VPS into three types based on the power relations among employers and workers:

Payment-by-results (PbR): Open, output-based payment schemes (e.g., piece rates). Preferred by workers because they

Performance-related pay (PrP): Managers' subjective assessment, enhanced employer discretion

Team-related pay (TrP): Tied to team or firm performance, optimizing employer flexibility but limiting employee control.

Employers favor TrP and PrP to fit pay with business performance and unions favor PbR to ensure transparency. The research predicts the use of each type of VPS relies upon the power ratio in CWB forms.

Key Findings: How Institutions Shape Pay Flexibility

Multilevel Bargaining: A Catalyst to VPS:

Ungoverned Systems: 73–75% of firms in Italy use VPS. There are conflicting rules created through bargaining fragmentation, and this compels firms to resort to performance pay as a substitute. To illustrate this, while the logistics firm in Italy can layer TrP over sectoral wage bargains in order to motivate efficiency

Governed Systems: 59–78% German companies implement VPS. Hardship clauses in sectoral agreements allow local modifications during times of crises and lower the need for VPS. A Bavarian automotive company may bargain for plant-specific PrP scheme agreements within the framework of a sectoral agreement.

National-Level Bargaining: An impediment to Flexibility:

Establishments with national agreements (such as France) are 3–5% lower in probability to adopt VPS. There is little scope in centralized wage-setting to introduce performance pay. PbR is difficult to introduce in retail chains in France, e.g., with their rigid national wage grids.

Divergence in VPS Types:

PbR Dominance in Controlled Systems: 45% of companies in Austria apply PbR since the unions bargain measurable standards (e.g., targets in terms of sales) to achieve fairness. TrP in Ungoverned Systems is 55% adoption in Spanish firms with employer discretion under chaotic bargaining structures.

PrP as a Middle Ground: PrP take-up is extremely diverse (42–59%), implying compromises. e.g., Dutch companies combine PrP with union-

agreed standards to strike the optimum mix between flexibility and employee participation.

Employee Representation: A Double-Edged Sword:

Works Councils: Associate with +5% increased VPS adoption. In Germany, councils tend to arrange agreements providing PbR in return for guarantees of job security.

Unions can cut VPS use 2.5%, as in Sweden where unions oppose performance pay to defend wage equality.

Discussion: Designing Institutions for the Future of Work:

The research debunks the myth surrounding the incompatibility between CWB and VPS and demonstrates they can coexist with intelligent institutional design:

Lessons from Governed Multilevel Systems:

Nordic models: Denmark's "coordinated decentralisation" balances sectoral agreements with firm-level flexibility. A Danish IT company can change salaries within a 10%-range determined by sectoral agreements, e.g.

German-style "Industry-Plus" Agreements: Sectoral agreements in manufacturing contain opt-outs for companies in financial difficulty so as to provide customized VPS without compromising collective standards.

Risk in Ungoverned Systems

Fragmentation in Southern Europe: In Greece, national and sectoral contracts collide and obliging the use of TrP at the expense of workers' rights. Unchecked adoption in such environments is warned to risk subversion (e.g., arbitrary deduction of bonuses).

The Role of the EU

Guidelines towards Harmonization: The EU might promote models to systematize multilevel negotiation and minimize conflicts. For instance, a directive harmonizing "derogation clauses" across different sectors.

Transparency Mandates: Mandating sound standards for PrP/TrP through legislation (e.g, with measurable KPI) can avert abuse by employers as witnessed in Belgium's regulated bonus system.

Case Study: Sweden's Balanced Approach

Sweden's combination of robust unions and adaptable VPS balances strong labor standards with rewards by firms and local unions based on performance bonuses (PbR). Its model has preserved high productivity and employee satisfaction and provides a model other EU countries can emulate.

Policy recommendations:

Decentralize Bargaining Power: Facilitate company-level bargaining wherever possible, similar to Germany's manufacturing industry.

Strengthen Multilevel Coordination: Establish EU-funded platforms where sectoral and company bargainers can harmonize aims and minimize fragmentation.

Invest in skill development: Combine VPS with training programs (for example, Finland's lifelong learning program) to make workers benefit from performance pay.

Regulate High-Risk VPS: Restrict TrP agreements in high volatility profit sectors such as tourism to curb wage volatility. It would provide enough flexibility to adjusting for different economic cycles.

Critical Reflection and Research Directions:

Informal Pay Practices: The study focuses on formal VPS, but informal practices (e.g, under-the-table bonuses) may undermine CWB. Future research should explore this "shadow" economy.

Digitalization and VPS: How are performance metrics based on AI (e.g., algorithmic appraisals) transforming VPS? A 2022 case study of Amazon's surveillance led PrP in Poland indicates emerging risks.

- Equity Implications: Does TrP disadvantage women or minorities? Data from Spain indicate gender gaps in team bonuses, warranting deeper analysis.

Post-Pandemic Impacts: COVID-19 increased remote work. How are hybrid models influencing the adoption of VPS? Initial evidence from Italy demonstrates higher PrP adoption rates for home-based monitoring of productivity.

Conclusion: Toward Flexible Fairness

This research redefines the CWB-VPS nexus as institutionally embedded and contextually conditioned in terms of power relations. For the EU, the way forward is adaptive governance institutional structures that support collective rights and yet empower companies to innovate in the face of market changes. Learning from governed multilevel models and responding to fragmentation in the south can assist policymakers in constructing labor markets at the same time dynamic and equitable. The research mobilizes actors to consider CWB and VPS rather than competitors with each other, but complementary tools to incorporate strategically into sustainable development.

Additional Comments and Course Reflections

This article connects clearly with course themes like post-Fordism, subsidiarity, and the balance between stability and flexibility. In Bio Natura, we saw how pay systems must adapt to identity and performance needs. Bechter et al. show this on a European scale. Also our Switzerland case, which we haven't send it yet as the group project, showed how decentralized models can support both fairness and change. The study is a strong example of combining trust, local flexibility, and collective structures in HR strategy.