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Abstract for the Research Paper “Management Compensation Systems in Central and Eastern Europe: A Comparative Analysis” Berber et al. (2017)

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The article by Berber, Morley, Slavić, and Poór explores how management compensation systems work in Central and Eastern European Countries (CEE), and how they compare to Western European systems. The authors are mostly focusing on eight countries: Bulgaria, Czech Republic, Estonia, Hungary, Lithuania, Slovakia, Slovenia, and Serbia. They use data from the Cranet survey, which collected responses from 3845 companies, including 1147 from Central and Eastern European Countries and 2698 from Western Europe. The Article’s goal is to explain what creates current pay systems for managers in Central and Eastern European Countries especially the influence of socialism history, culture, and modern reforms.

Theoretical Background

The article starts with explaining why compensation is a key part of human resource management . Pay is not only about giving money to employees, it also affects how companies attract talent, keep good staff, motivate people, and improve performance. In Central and Eastern European Countries, this is even more complex because of their history under socialism, which used a very different system from today. Shift from Socialism to open market economy, without any doubt, has impact on the compensation systems as much as the other parts of the life in those countries.

The authors use a concept called "path dependency" which very commonly used in the Social sciences and especially in Economics (I remember I have read the term from the recently Nobel winning Economist Daron Acemoğlu, but I guess the term itself is very popular among “institutionalist” Economists and Social Scientists). This means that past systems still affect how things are done today. Under socialism, most countries in the region used centralized pay systems. Decisions were often made by the government or central authorities. Bonuses were common, but not linked to performance. After the fall of socialism, these countries started to reform and change. However, the past still influences the present as the term path dependency states, which we can summarize It like an anchor to the past even though those countries are aspiring to change their social and economic life.

Another key idea is the impact of culture which also influenced by the past. The authors use Hofstede's cultural dimensions to explain how national values shape pay systems. For example:

- Countries with high individualism (could be interpreted like countries that had the fordism transformation before others, since economic systems are highly influencing human behaviour) often use performance based pay, because people prefer to be rewarded for their own results.
- Countries with high power distance may prefer centralized decisions made by senior leaders.
- Where uncertainty avoidance is high, companies are less likely to use variable pay like bonuses or stock options. Because it makes future less foreseeable.

So, even if the same HR tools exist in the West and East, they may not be used in the same way, or in the same efficiency, because of culture and history.

Main Deductions:

The study presents three important results:

1. Path Dependency Still Matters

A main result of the article is that the past still shapes how companies pay their managers in Central and Eastern Europe. This is called path dependency, which means that old systems continue to influence current practices. Under socialism, pay was decided by the state and central authorities, and there was little connection between salary and performance. That structure left a strong influence.

Today, in many CEE countries, line managers still control salary decisions, while HR departments have less influence than in Western Europe. Also, financial participation tools like stock options and profit sharing are still rare, especially in smaller or local firms. Most companies continue to use fixed pay and individual bonuses, which feel safer and more familiar.

This shows that even after many reforms, change is slow, and many companies still follow habits built during the socialist era. Cultural comfort and trust in older systems make it harder to apply new pay methods.

2. Performance-Related Pay Is More Common Now

The authors found that performance-based pay is now more used in CEE countries, especially individual bonuses. However, team-based rewards are still rare. In countries like Estonia, Serbia, and Slovenia, individual bonuses are used more often. But in general, variable pay is still not as widespread as in Western Europe. Instead, fixed salaries and seniority still play a big role.

3. Culture Shapes the System

Cultural differences are important. For example:

- In countries with high power distance, pay decisions are more centralized, and employees are less involved in setting their goals or evaluating their own performance.
- In collectivist cultures, which could not be separated from the socialist past at all, team bonuses may be more accepted.
- Countries with low uncertainty avoidance are more open to new pay systems like profit sharing or flexible bonuses.

The authors say that even if some countries want to follow Western models, their culture sometimes makes it difficult to copy those systems fully.

Other Observations

The article also compares how pay is negotiated. In Western Europe, national or sector level (maybe sometimes via syndicates) negotiations are more common, and HR departments are more powerful. In CEE, most pay talks happen at the individual or company level. Exceptions include Slovenia, where more structured negotiations exist.

Another key point is that in many CEE countries, HR departments have a smaller role in pay decisions. Line managers have more control. This may be due to tradition or the smaller size of many firms. In contrast, Western Europe sees HR as a strategic partner in compensation design.

Finally, multinational companies are slowly influencing local systems by introducing Western practices. But these are not always accepted easily, especially if they conflict with local values or habits. Some of them are adjusting their local firm culture to comply with the culture in the countries where they have branches.

Discussion and Implications

The article shows that CEE countries are moving toward Western pay systems, but not at the same speed. Some countries have made more changes than others. For example, Slovenia and Estonia are more modernized, while Serbia and Bulgaria still use many older methods. This depends on many factors: history, EU membership, economic development, and leadership vision.

The authors argue that culture and history should not be ignored when building compensation systems. If companies (especially international ones) try to copy Western models without adapting them, they may face problems. Pay systems should fit the local context.

Also, HR managers and policymakers should understand the long-term effects of socialism and local values when designing pay strategies. There is no one type fits all model. Instead, companies should find the right balance between global standards and local expectations.

Conclusion

This article is very helpful for understanding how compensation systems are not only about numbers or tools, but also about people, culture, and history. It connects HR practice with economic transition, cultural identity, and organizational behavior.

For me, the part about path dependency was the most interesting. Even when countries want to change, the past holds a strong influence. In payment systems, we should often think about what is modern or efficient, but we sometimes forget that people are used to certain systems and change takes time.

This connects with what we saw in the Bio Natura case in the previous task. There, two teams had different ideas about work and fairness. One was focused on modern science, the other on traditional organic methods. Just like in CEE countries, the identity and values of people shaped how they felt about management and reward. So when making a pay grid or compensation system, it's not just about logic or money it's also about people's beliefs and how they see their work.

Also in Bio Natura, the conflict between the traditional and organic teams showed how difficult it can be to create a common compensation system when employees have different cultures or working styles. The same challenge appears in the article, where Western models do not always fit with local values.

Also, The article also overlaps with ideas we studied in class about Fordism and Post-Fordism. In the past, under Fordism, companies focused on mass production and standard pay. Today, under Post-Fordism, there is more attention to individual performance, flexibility, and skills. The move from fixed

to performance based pay in CEE countries shows this shift. Because the mentioned countries are just trying to have a transition from socialism, but their past is obstructing them from reaching the post-Fordist system which makes them struggling at Fordist system that most developed countries has already stop following. This can be one of the most significant problems that underlying for the payment system inconsistencies.

Just like we saw in the transition from Fordist to Post-Fordist models, some systems change faster than others. In CEE, cultural resistance and old habits slow down the move to modern compensation systems, especially in local firms.

In conclusion, the article gives a deep and clear explanation of why local context matters in payment systems. It shows that understanding people and culture is just as important as using good HR tools.