

Industrial & Labor Relations Review

Volume 56, Issue 3

2003

Article 15

Paying for Performance: An International Comparison

Yoshio Yanadori*

*

Copyright ©2003 by the authors. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the publisher, bepress, which has been given certain exclusive rights by the author. *Industrial & Labor Relations Review* is produced by The Berkeley Electronic Press (bepress). <http://digitalcommons.ilr.cornell.edu/ilrreview>

Paying for Performance: An International Comparison

Yoshio Yanadori

Abstract

Paying for Performance: An International Comparison. Edited by Michelle Brown and John S. Heywood. Armonk, N.Y.: M.E. Sharpe, 2002. 298 pp. ISBN 0-7656-0752-2, \$66.95 (cloth); 0-7656-0753-0, \$22.95 (paper).

occupy a space accessible to working-class communities where members get together to eat and drink and socialize with union brothers and sisters? Or is it in an office in the suburbs where elected officials and staff identify “leverage points,” administer benefits, and find ways to “deliver”? Can data convince us that a shift from public sphere to administrative center has really happened? Could more cases show us concretely how it matters? This kind of empirical work would greatly enrich our knowledge of union decline and generate suggestions for revitalization.

Following C. Wright Mills’s writing, Aronowitz argues, in line with the sentiments of most industrial relations scholars, that intellectuals should commit themselves to a public purpose. This means that he has to leave room for some hope. Unfortunately, his optimistic moments are difficult to reconcile with the bulk of his argument. How, for example, could labor “no longer see itself dependent on capital”? Would canceling cooperative agreements do the trick, as he asserts? It would be more consistent for him to argue that the incorporation of union leaders into the ruling bloc has deep roots that predate the growth of labor-management partnerships. Perhaps he refuses to take that path because such a fundamental critique would interfere with his hope that unions have a potentially transformative role.

Aronowitz’s style is consistent with his message: just as the labor movement should be liberated from capital, his text is liberated from the bullet points, the numbered paragraphs, and the instrumentalist policy proposals that lend a pat, formulaic quality to most industrial relations scholarship. In his world an engaged intellectual should decide against scientific detachment and choose instead to be a “rantier.”

Does this strategy work? I doubt it. By setting up a dichotomy between objective “science” and “ranting,” Aronowitz interferes with the kind of commitment that would yield insights relevant to what unions are doing. For example, he seems to assume that good organizing practices are invariably coupled with democratic unions. Had he examined more unions, he would have met people who satisfy his “good organizer” criteria, but who work for unions that vary widely in terms of democracy. He might even have come upon cases in which prerogatives of union democracy and organizing interfere with each another. Behind most successful stories he would have found a bureaucracy that supported organizing efforts in surprising ways, using research, job training,

benefits administration, and many other functions. He would have seen how good organizers use the know-how of functionaries hidden away in offices with little daily contact with the grass roots. With this kind of scientific investigation, he could have produced a more nuanced view that captured the many tensions between administration, organizing, and democracy. It may be that union strategists need heightened sensitivity to these tensions.

This book is probably not a blueprint for union renewal. More likely it points toward glorious defeat along a route so intellectually fertile and problematic that only someone with the last good job in America could map it.

Ian Greer

Ph.D. Student
New York State School of
Industrial and Labor Relations

International and Comparative Industrial Relations

Paying for Performance: An International Comparison. Edited by Michelle Brown and John S. Heywood. Armonk, N.Y.: M.E. Sharpe, 2002. 298 pp. ISBN 0-7656-0752-2, \$66.95 (cloth); 0-7656-0753-0, \$22.95 (paper).

“Definition, please.” When *compensation*, as used in “His annual compensation was \$25,000,” is translated into various languages, the differing shades of meaning that result are illuminating. In English, *compensation* is colored by the primary definition of *compensate*: “counterbalance, offset, make up for.” The Chinese term that would most probably be used in the same context, *dai yu*, means “how you are treated or taken care of,” and the Japanese term, *kyu yo*, means “giving something” (George Milkovich and Jerry Newman, *Compensation*, 7th ed., 2002). These differences, embedded in a nation’s history, culture, institutions, and so on, suggest that people in different countries perceive their compensation quite differently. Some may emphasize compensation as a return for their efforts, while others may view it as the means to maintain a decent life. Such nuanced differences are likely to attach not only to compensation in general, but also to specific forms of compensation. Performance-based pay, for example, may be perceived differently across the world. Consequently, studying the variety of

national contexts in which performance-based pay plays a role improves our knowledge of international compensation.

Paying for Performance: An International Comparison does an excellent job of describing how performance-based pay is embedded in a country's contextual factors. The book consists of eight chapters (in addition to the introduction and summary by the editors) that describe performance-based pay systems in eight countries: the United States, Canada, France, the United Kingdom, Germany, Australia, Japan, and Brazil. The contributors come from different disciplines (labor economics, HR/OB, and industrial relations, for example), and they take different approaches. However, all the chapters focus on two primary issues concerning performance-based pay: (a) the current state of its use in each country, and (b) factors influencing organizations to adopt performance-based pay. Some chapters go beyond that and examine the consequences of performance-based pay.

Two chapters on North America (the United States and Canada) lead off the comparative analysis. Using public data ranging from the late 1970s to early 1990s, Daniel Parent reports that individual performance-based pay (piece rates and commissions, for example) is uncommon as compared to group/organization performance pay (profit sharing) in the United States. Taking an economic perspective, he provides comprehensive arguments about the determinants and consequences of performance-based pay in the United States. One of Parent's conclusions is that there seems to be important relationships between performance-based pay and firm productivity, although he admits that more research is needed. In the chapter on Canada, Richard J. Long classifies 13 types of different performance-based pay into three categories according to performance criteria: individual performance, group performance, and organization performance. As an HR/OB scholar, he examines the determinants of each type of performance-based pay using his survey on Canadian firms conducted in 2000.

There are three chapters on European countries. The chapter by Fathi Fakhfakh and Virginie PÉrotin describes the legal background of profit sharing plans in France. This institutional background information helps explain why this particular type of performance-based pay is common in this country. David Marsden and Stephen French, two industrial relations researchers in the United Kingdom, take a different approach in the U.K. chapter. They study the U.K. Inland Revenue Office, which

adopted performance-based pay in 1988. Specifically, they examine how the adoption of merit pay systems affected employee behaviors and organization performance. Although management perceived that merit pay improved organization performance, many employees reported greater stress and a feeling of unfairness. This chapter demonstrates how the administration of performance-based pay influences employee behaviors. In the next chapter, German economist Uwe Jirjahn provides comprehensive discussions on the determinants of performance-based pay in Germany. He also conducts an empirical study, using data from 1996, of how various collective-bargaining styles influence different performance-based pay schemes in Germany.

John Shields, an Australian HR/OB researcher, describes the historical evolution of performance-based pay in Australia. The chapter describes the influence of the Australian centralized collective bargaining system and its recent reform (in the late 1990s) of performance-based pay. In the chapter on Japan, Takao Kato, an economist, provides historical reviews of employee stock ownership plans (ESOPs) and profit sharing in Japan from the mid-1960s to the late 1990s. HÉlio Zylberstajn's article on Brazil is also informative. As an IR researcher, Zylberstajn offers up-to-date information (as of 2001) on the legal and institutional background that encourages the use of performance-based pay in Brazil.

The eight chapters are largely independent, with limited integration between them. Different chapters discuss different types of performance-based pay with different time spans, and thus readers may have difficulty forming a global mental map of performance-based pay. That said, however, readers who compare the eight country analyses in this book will see how these countries' unique institutional factors (labor laws, tax laws, and so on) lead to variations in performance-based pay cross-nationally (for example, variations in the particular form that is most common). By the same token, readers will also identify several factors—organization size, the nature of work, and employee human capital, for example—that apparently influence an organization's adoption of performance-based pay regardless of each country's institutional settings.

One caveat. Four chapters (on the United States, France, the United Kingdom, and Brazil) examine the consequences of performance-based pay, and all four report positive productivity effects. A reader might conclude from

these articles that performance-based pay is universally effective irrespective of national cultures, institutions, and economic conditions. But four country studies are clearly an inadequate basis for such a generalization, and thus a more systematic international study is necessary. For instance, a cross-national study investigating the effectiveness of each type of performance-based pay system might tell us which types are contextually sensitive and which are not. Multinational corporations would greatly benefit from such a study, because compensation management is a critical issue in international human resource management.

One subject absent from this book that I think would have improved it is stock-based compensation. Though stock options have been rapidly growing in popularity all over the world, stock-based compensation is not addressed by any of the authors except Kato, who studies the diffusion of ESOPs in Japan.

I recommend *Paying for Performance* both to international human resource management researchers and to practitioners. It is of considerable value not only for the information it offers on compensation systems of specific countries, but also for the illuminating cross-national comparison of performance-based pay it affords.

Yoshio Yanadori

Ph.D. Student
New York State School of
Industrial and Labor Relations
Cornell University

Created from NAFTA: The Structure, Function, and Significance of the Treaty's Related Institutions. By Joseph A. McKinney. Lebanon, Pa.: M.E. Sharpe, 2000. 272 pp. ISBN 0-7656-0466-3, \$60.95 (hardcover).

In *Created from NAFTA*, Joseph McKinney sets out to provide an overview of the "structure," "functions," and "significance" of the institutional structures created under the North American Free Trade Agreement (NAFTA), the most important of which are the Free Trade Commission and the commissions on labor and environmental cooperation. He partially succeeds. McKinney outlines how NAFTA's "related institutions" and structures came into being and summarizes some of their activities and proceedings extensively. He fails, however, to make a compelling case for their significance or effective-

ness. Moreover, the terms "effective" and "significant" are never clearly related to particular goals or outcomes.

The book's core assertion seems to be that the institutional structures created by NAFTA will attain greater stature and influence as "dispute settlement" mechanisms and "cooperation and consultation" procedures come to "overshadow" the imperatives of regional trade and investment liberalization, which in time will culminate in a true "free trade zone." Given a widespread perception of the NAFTA labor and environmental side accords as ineffectual, and in light of growing criticism abroad of U.S. trade policy due to continued government subsidies and support of U.S.-based transnational corporations (such as in agriculture and steel), one wonders what McKinney's positive vision is based on. McKinney does not explain. Based on what recent evidence or historical precedence, and under what future circumstances, would NAFTA-related structures become more "significant" and "effective"? And on behalf of which social groups or political interests? These questions are insufficiently explored in

Created by NAFTA.

McKinney seems to assume that gains derived from the neoliberal economic integration policies imposed by NAFTA are, for all practical purposes, universal. The notion that trade and investment liberalization produces "greater prosperity" is presented uncritically and without differentiation as to who benefits. "Labor abuses" and the prospect of "pollution havens," while acknowledged, are attributed to "disparities" in development between nations. Their relationship to neoliberal policy prescriptions or to systemic properties of laissez-faire capitalism, both of which transcend national borders, are left unexamined. Certain groups have indeed gained from neoliberal policies, but others have lost. There have been worldwide demonstrations protesting the effects of such globalization policies as privatization, deregulation, and trade and investment liberalization. Yet McKinney refers to widespread demands for guarantees of labor and environmental protections as "fears" or "concerns" over what "might" occur, not as a reaction to real trends of intensified exploitation, unemployment and economic upheaval, and environmental destruction that issue largely from liberalization policies—for example, the exploitation of mostly female labor in maquila export-processing zones, the economic devastation of industrial communities due to plant closings, the routing of unionization campaigns (in both developed