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Bonus Plans Reflect Cultural Differences.

America may no longer be the “land of unlimited possibilities” however, there may be more opportunities than in Germany or elsewhere in Europe. For example, in terms of earning opportunity it’s true that on average American executives, especially of very large companies, earn significantly more than their German counterparts. The average income of board chairmen is likewise much higher in the U.S. than in Germany, and has been rising at a faster clip. When it comes to average compensation, the ratios for top management to the median pay for all other workers ranges, according to some studies, from 350-500 to 1, while in Germany the ratio can range around 70 to 1. These gaps have been steadily widening, but again at a faster rate in the United States than in Germany.

Of course if you’re among the select few top earners in the U.S. you may be quite happy with this. That is, if you can ignore the larger effects on society. From the perspective of the “average person”, things look a bit different. The fact remains, however, that it is more than just the base salary but rather the performance-based bonuses, stock options, and profit-sharing plans which can assume completely different dimensions in the United States than in Germany. This holds true as well for smaller and medium-sized companies.

Based on the regular compensation reviews by JR BECHTLE & Co. which examine compensation parameters for German firms in the U.S., it’s clear that American managers in comparably-sized companies receive about the same base pay as their counterparts at German subsidiaries. However, it was also shown that the American companies’ performance-based compensation is substantially above that of those at German U.S. subsidiaries of equivalent size. While the president of a German subsidiary has a bonus corresponding to around 25% of base salary, the president of a similarly-sized American company will often see a significantly higher bonus, even exceeding his or her base salary in a particularly good year. This is also influenced by the fact that American companies less frequently employ bonus caps or limits, but simply pay for results.

This reflects different practices and attitudes in Germany and the United States. The American, for example, doesn’t object to the idea that the bonus next year may end up being much lower than this year’s as long as there’s a significant upside opportunity the following year. In Germany there’s a greater desire for stability at the expense of large swings up and especially down. As a subsidiary, the U.S. entity often has the German attitude imposed on its bonus plan for top management. Perhaps this also may be due to an attempt to achieve consistency across all global entities.

On both sides of the pond, it’s of course vital to have a transparent and measurable performance bonus plan in place. It should be based on results and key performance indicators, and should align with the overall company’s short- and long-term strategies. The goal is to improve performance and motivate through setting realistic but also stretch targets.

For subsidiary management it’s important to acknowledge that while the short-term upside on the bonus side may be less than that of a “standard” American firm, the longer-term upside could be greater due to fewer strong downward “plunges” during bad times. German management, on the other hand, could benefit from leveraging the American’s openness to risk and his or her willingness to accept greater fluctuation ■