

1. Introduction

1.1 Purpose of the Study

As far back as the ancient Greeks man was regarded as a social animal. If this is the case and numerous academics are of this opinion, then it arises the question in what ways do we need to consider the social nature of man in order to study business related questions? One aspect of this issue, the role of culture concerning a specific business related question is the focus of the following dissertation.

Does culture influence economic results? At some vague level, most economists would probably agree that preferences and beliefs, the basis of the definition culture, are endogenous and hence likely to vary across environments. Whether culture plays a quantitatively important role in explaining economic outcomes however is another question and I think that in this point economists would tend to be sceptical. This scepticism results largely from the absence of rigorous empirical work linking culture and economics. When faced with variation in economic outcomes, across countries or individuals, the traditional strategy has been to explain this variation with differences in policies, institutions, and technology. The distribution of agents, preferences and beliefs is taken as given and invariant to the environment in this case. In fact, up until about the end of the 1990's, the role of culture in explaining economic phenomena has been largely ignored by academics. At the end of the 1970's the noble prizewinners Stigler and Gary even claimed, "economists who argue with cultural factors are just trying to cover up the failures of their analysis".¹ To explain variation in outcomes with differences in beliefs or preferences was regarded by many academics as unscientific.

This attitude has however changed in the past decade and a new body of work has emerged that attempts to provide evidence on the effect of culture on economic outcomes. Culture and economics has become a booming area of research. Edmund Phelps, a noble prizewinner is convinced that "the national culture is an important determining factor for the economic

¹ Stigler/Becker (1977), pp. 76.

performance”.² The evidence of the influence culture on economics is of varying quality and has been conducted with various methodologies, and on a diverse set of questions. It ranges from the relationship of trust with outcomes such as trade (Guiso, Sapienza and Zingales (2005)³ or trade union membership (Algan and Cahuc (2006a))⁴, to the relationship of culture to effort (Ichino and Maggi (2000))⁵, the links between religion and growth (Barro and McCleary (2003))⁶, Tabellini (2005)⁷, as well as historical work on culture and institutions (Greif (1994, 2005))⁸ or Jewish culture and occupational choice (Botticini and Eckstein (2005))⁹. The results of cultural economics are also relevant for economic policies because if the economic behaviour of people is influenced by culture then transferring reforms from one country to another may be difficult or even impossible. For example the French economists Yann Algan und Pierre Cahuc presented the following hypothesis: the Danish „Flexibility“-Policy, which protects the unemployed very generously would not be suitable for other continental European countries because of the cultural differences. This policy works in Denmark because the Danes are very honest and do not abuse the social system.

In the following dissertation I have chosen to concentrate on this area of research and analyse the influence of national culture on stock option programmes (SOPs) as motivators using the case of managers in Germany. SOPs are a type of incentive system that is used in employee remuneration. In the globalised world human capital and the “war of (for) talents” for employees has become increasingly important and may indeed determine the success of a business and its competitive ability. This development is expected to continue in the future as major economies emerge. As a consequence, the corporate world has witnessed a remuneration internationalisation¹⁰ and management has recently been under pressure to restructure its remuneration system in light of global competition so as to attract the best employees.¹¹ One incentive system that has been in the press often in the last couple of years is SOPs. SOPs are closely associated with the shareholder value concept because, like the

² cf. source of quote/Handelsblatt, (2007), p. 19.

³ Guiso/Sapienza/Zingales (2006), pp. 23.

⁴ Algan/Cahuc (2006a), p 715.

⁵ Ichino/Maggi (2000), p. 1057.

⁶ Barro/McCleary (2003), p. 760.

⁷ Tabellini (2005), pp. 15.

⁸ Greif (1994), p. 912, Greif (2005), pp. 7.

⁹ Botticini/Eckstein (2005), p. 930.

¹⁰ cf. Kramarsch (2004), pp. 1.

¹¹ cf. ibid

shareholder value concept, they too are directly linked to the share-price development. SOPs have been very popular in America and Great Britain in the past years however not so popular in Germany. When Mr Kazuo Inamori one of Japans most influential managers and shareholders and honoury Chairman of Kyocera gave the following interesting answer on the discussion about management remuneration in an interview with a German financial newspaper: “In Japan a remuneration gap in society between top managers and normal employees is not desirable. But I am aware of the very high salaries that are paid to members of the board in the USA. This is ridiculous. I am very much against this. In Japan the remuneration of a top manager is ten at the most twenty times higher than that of a university graduate. SOPs are only granted in a couple of Japanese companies. The point being that SOPs are only granted in a couple of companies because the profit that can be made from SOPs if the market development is favourable is unlimited and this is not accepted by society.”¹² The significant difference in popularity of SOPs in Germany compared to Anglo-Saxon countries (America and Great Britain) and statements like that of Mr Inamori have inspired me to chose to focus on the question of the influence of national culture on SOPs as motivators – the case of managers in Germany.

But cases in which managers in Germany have decided to copy the remuneration systems of other countries, in particular Anglo-Saxon countries, and introduced SOPs also exist, however, unlike Algan/Cahuc, they have failed to analyse the suitability of SOPs for Germany. Studies like that of Bleicher¹³ and the Cranfield Business Institute¹⁴ suggest that culture may influence the usage of different types of remuneration systems. Blindly copying remuneration systems from other countries may therefore lead to disappointing results for both the employee, because the remuneration system fails to motivate him adequately, and the employer because of the additional costs and time invested if culture is found to influence the attitude towards SOPs.

This theoretical question that I am going to analyse empirically in the following dissertation – the influence of national culture on the attitude towards SOPs as motivators could therefore

¹² Handelsblatt (2006), Nr, 224, p. 2.

¹³ cf. Bleicher (1993).

¹⁴ The Price Waterhouse Cranfield Project on International Strategic Human Resource Management (1990), pp. 7.

have important practical consequences for the corporate world and optimise the search in the war of talents and also contribute to the new body of research that has developed in economics in recent years.