

Formation of Compensation for Employed Entrepreneurs: with a Case Study of the BASF

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Introduction

The recent worldwide financial crisis provoked a heated-up debate among the broad public that the “Managers” of worldwide active big multinational companies were mainly to blame for the shocked world economy and that their greed for super bonus nevertheless knows no limit, which seems to the eyes of the public only to be shameless. Confronting with severe critics, many members of executive- or managing-board of famous multinational companies began to feel compelled to publicize concrete amount of their salaries and bonuses in the official company reports. But still the most of the public is very skeptic about the sincerity of the statement of managers, because the whole system of the Human Resource Management (HRM), which is applied to each board member, unchangeably remains corporate-secret. Thus we don’t know much about the personnel management applied to the top-managers of large-scale companies until today though they couldn’t have been top-performers without well-constructed HRM-system which aligns their entrepreneurial ambitions with the interests of the investors and

necessity of the corporate growth over the long term.

But everything has its origin, which must be also the case with the HRM-matters for top-managers. If we find it necessary to understand how they come to behavior in the way that they pursue only their own pecuniary interest notwithstanding miserable business situation of today, we must at first explore the historical development of personnel management applied to top-managers. Even a sole historical analysis of the compensation-system as a most important part of the HRM would help us throwing light on the basic behavior model embedded deeply in the top-managers today and how it had been developed. So, in this work, I would like to analyze the compensation-system of top-managers by means of historical documents handed down by the world-wide famous company which exists until today.

To approach the present task I will engage with a case study of the BASF, the world biggest chemical company whose head-quarter locates in Ludwigshafen, Germany; the observation-period stretches from the late 19th century to the beginning of the 20th century, that is, from the foundation of the firm to the outbreak of the WWI which could be seen as an important historical caesura of the long growth-period of German firms.

In this paper the English-translation “executive” is used as a German equivalence “Vorstand” which means the member of the executive- or directors-board as a top-decision-maker of German companies who serves as “employed entrepreneur” of companies in virtue of the appointment by supervisory-board as the representative of the owners or shareholders. The information containing confidential and highly individual character used in the following discussion was derived from the historical documents administrated by the Corporate Archive of BASF (BASF-Archive) in Ludwigshafen, Germany. In the first section the contents of the service-contracts concluded between the supervisory-board and the executives of the first generation are examined. In the following section the salary paid to each executive and its development are discussed on the basis of the record of payrolls available for the moment. We will then end this paper with the conclusion in which the characteristic of the compensation-practice applied to the German employed entrepreneurs of the earlier period and its implication

directed toward our generation confronting with “unbridled” greed of contemporary top-managers are to be discussed.

1. First Service Contracts

In this section, we explore the HRM-practice during the foundation-period (in the late 1860s and 1870s) of the BASF of which summarized structure can be observed in service-contracts of the managers. Because of limited availability of personnel files dating from the foundation period, we examine solely those of very limited number of personality for this purpose. In the following the concrete contents of the service-contracts as basic HRM-tools used by employers are analyzed¹⁾.

The first CEO or director general of BASF was Friedrich Engelhorn (1821-1902), an internationally well experienced businessman with a goldsmith’s vocational training (no academician), who had established BASF besides many other successful chemical firms like Zollstoffabrik with the help of some manufacturers and rich financier-families (like family Ladenburg) who became the first members of supervisory-board of the BASF. Engelhorn established the BASF in 1865. On this occasion, he concluded his first service contract with the investors of BASF who acted as supervisory-board (Verwaltungsrat or Aufsichtsrat) dating from April 15 1865. This fact shows that formally his employer was supervisory-board and that he was a quasi “employed entrepreneur” who had not been a true employer at all but a kind of white-collar. In this contract he was charged with the top-management of the firm. He had three other colleagues in his executive-board, Carl Clemm (1836-1899) and August Clemm (1837-1910) who had always made a successful career as a college graduated chemist, and Julius Giese (whose exact date of birth and death are unknown), a specialist in the area of inorganic production.

Engelhorn’s first service contract consists of following stipulations (only abstract):

- He conducts the business in accordance with the instruction and order of the supervisory-board.
- The term of his contract is 10 years.
- He is prohibited from taking on the same or similar business run by BASF.
- He must deposit 1,000 shares of the BASF in the cash register of the same firm, and it is prohibited for him to sell them so long as the present contract is effective. He must abandon the voting right of these shares unless they would pay out the 50% of the dividends to the shareholders for about 4 years.
- He gets no regular salary or fixed salary. Instead he receives as his bonus five-twelfths of annual net-profit earned by BASF which is allowed by the statute of BASF to be paid out to the executive-members and the clerks (Beamten: white-collars).
- If he wishes, he can live in the company-owned house situated on the fabric premise. The house is rent-free and free of any expenses of light and fuel (Later, since 1866, Engelhorn was entitled to receive 2,200 Guilder as an annual rent-allowance instead of utilization of the rent-free house).

Next we will examine also the stipulations of service-contract of Carl Clemm which was concluded at almost the same period, on 7 April 1865 (only abstract).

- The term of the contract is 10 years (like Engelhorn). He serves as the technical director of the BASF and conducts the business as a colleague of executive-board. He is subjected to the instruction and order of the supervisory-board.
- He must keep secret of all the know-how of the fabrications of BASF which he would learn during the period of his service. If he breaches this stipulation, he must pay the firm a contractual penalty of 100,000 Guilder. This penalty falls on him also in the event that he on his part decides to leave the BASF before the expiration of the present contract.
- He must deposit 25 shares of the BASF with the same obligation imposed on

Engelhorn.

- He receives a fixed annual regular salary of 2,000 guilder and annual bonus which is supposed to be equivalent of one-twelfth of annual net-profit as stated above. Further he is entitled to receive 6 and two-thirds % of amount of the cost-saving realized by his special work in the manufacture.
- He can take advantage of the company-owned house on the same condition applied to Engelhorn.
- In case that the BASF should be liquidated or on its part decides to terminate the present contract before its expiration, the firm pays him the same amount as he got as his last annual salary for one year after his separation.

If we close look at the stipulations of the both contracts and compare them, we can point out the fact that the contracts are prima facie to a great extent individualized. The biggest difference lies in the regulations of compensation. Firstly, Engelhorn, the CEO or director general who had been mainly in charge of whole management of the production and commercial activities, contractually did not get any guaranteed salary, while Carl Clemm, responsible for highly specialized technical and scientific matters like inventions of chemicals and synthetic dyes, received a guaranteed regular salary. Secondly, also the determinant and modality of the bonuses as variable remuneration had been differentiated. Engerhorn received obviously by far a larger part of corporate net-profit as a bonus than Clemm did. On the other hand, Clemm got an additional bonus of which determinant was oriented to his special vocational ability. On the whole, Engelhorn's compensation was perfectly connected to the business performance of the whole firm-organization which was naturally exposed to the yearly business fluctuation. In other words, a perfectly company-performance oriented remuneration was supposed to be the best monetary incentive for a top-manager from the beginning of the company. To understand the characteristic of Clemm's compensations we should notice the fact that the contents of his service contract by and large similar to those of the many non-managerial chemists who served the German chemical companies until 1920s.

A regular salary which guarantees the bread-and-butter independently of the business-situation of the firm and a less important role of the variable bonus played in the total income generally strengthen the employee-character of the person to whom such a treatment would be applied. Also the regulation of the bonus from the job-activity related directly to productions or inventions managed by the person in question remember us of that of non-managerial chemists²⁾. The difference of compensation regulations of the both first executives implies not only the tendency of individualization of the HRM-practices for top-managers those days but also the existence of character-difference between executive-members with regard to the strength of entrepreneur-function: On the whole, we could find more entrepreneur-character in Engelhorn's compensation than in Clemm's.

Also the share-deposit-obligation supports such a view: Engelhorn held as much as 1,000 shares of the BASF, while Clemm only 25. If we take the fact into consideration that the total capital stock of newly founded BASF counted for 1,400, it would be obvious that the former functioned not only as an employed entrepreneur but also practically as the largest co-owner of the firm besides the members of the supervisory-board or investors. On the contrary, the latter was seen rather as a hired technical specialist or scientific inventor with a limited co-owner character though Clemm himself had founded many important companies including BASF hand in hand with Engelhorn. Indeed, Engelhorn was entitled to the signature-power by supervisory-board with which alone he could make all the decision relevant to the corporate business-matter, while Clemm could make such decisions only with the co-signature or "collective-signature" of one of his colleagues³⁾.

We must also pay attention to the fact that there had been no contract-penalty for Engelhorn in the case of his resignation though such penalty was clearly stipulated in Clemm's contract which functioned virtually as a non-competition clause usually applied to employed chemists of those days. Perhaps also in this case we could attribute the difference to the co-owner character of Engelhorn who might have been supposed to be a perpetual shareholder or partner of the firm.

All the facts suggest that at the beginning of the private large-scale German chemical company there had always been two categories of the executives, that is, the hired entrepreneurs who were simultaneously identified as a co-owner of the company, and the managers who were treated rather as employees than co-owners with regard to the HRM. Naturally the practice of this kind can't be applied to all the German companies of those days because we must take the special situation of the corporate start-up of the BASF into consideration. But so long the genuine owners of a company, in this case the members of the supervisory-board as investors of BASF who were not specialists of chemical business and corporate personnel management, had needed someone who represented their own interest and carried on business successfully, they also must treat such a talent with the conditions that enable him or her to behave as a true employer making the final decisions in all the matters who also appears as such vis-à-vis to other colleagues in executive-board, otherwise a company couldn't have been led effectively. The case of the BASF shows solely one of the most rational solutions of HRM-matters on the top-management-level, which might have not been the best practice in other companies doing their business under quite different circumstances.

Regrettably the origin of each stipulation of the contracts is not perfectly known. For example, the modality of executive-compensation of which amount is supposed to be decided by the realized net-profit of companies has been traditionally called profit-sharing (“Gewinnbeteiligung”) and characteristic of the HRM-practice in German firms up to the recent days. But, at least, this kind of compensation had been popular as manager-reward also in the German public coal-mining companies since the beginning of the 19th century, so we can't say for sure when and where such reward-system had been developed, which holds true also for other regulations like entitlement of rent-free house and allowance in kind⁴.

In the 1870's, about 10 years after the establishment, the BASF enlarged its management-team in accordance with rapidly expanding corporate organization. Especially the firm needed more top-managers who were academically well educated, scientifically very talented and adept at inventions of chemical products to counteract the

threatening of rapidly expanding concurrent firms like Bayer and Hoechst. For this purpose, Engelhorn and supervisory-board decided to appoint two graduated chemists, Carl Glaser (1841-1935) and Heinrich Brunck (1847-1911) as further management-members. In the following we examine their second service-contract (the first one is not available now) concluded on February 11 1879. Unlike their senior colleagues whose first service-contracts were to a great extent individualized, the form of the contracts is perfectly the same (only abstract):

- They conduct the business-areas to which they are assigned in accordance with the statute of BASF, the orders of supervisory-board and those of directorate general.
- They join the executive-board as “representative director” and are empowered to sign only as procurators of the ordinary executive-members.
- The contract is valid for 5 years beginning on January 1 1879. After its expiration, the same regulation would be valid for another year. The notice period is one year prior to the resignation or expiration of the contract.
- They get an annual fixed salary of 12,000 Mark and a bonus equivalent to 1 % of the net-profit stipulated by the statute of BASF.
- They must keep secret all the business know-hows of BASF from outsiders during 5 years after their retirement. It is not allowed for them to run or join any business which is run by the BASF after their retirement. In the case of noncompliance or infringement of the contracts, they must pay the firm a contract-penalty of 100,000 Mark.

The stipulations above obviously inform us of more limitedly acknowledged autonomy of two managers, even compared with Carl Clemm who also had been responsible for the technical matters. It is true that these stipulations are similar to those of Clemm’s to some extent (like the regulation of contract-penalty), but there is clear differences between them: Brunck and Glaser were not only subjected to the instructions of supervisory-board, but also to those of ordinary executive-members or

directorate general, which means that they were virtually nothing more than employees who were subordinated to their senior colleagues. They couldn't make a business decision on their own, but only through the authorization by the ordinary executive-members. Also the entrepreneur-character of their bonus had been by far limited than that of Engelhorn and even Clemm's, for they were entitled to only 1 % net-profit as their bonus. The free-rent house was no more allowed to them. What is more, they were not forced to hold the shares of the firm, which had been the case in the first service-contracts of Engelhorn and Clemm: On the whole the directors of younger generation weren't treated as co-owners any more but solely as employed entrepreneurs who were bound to the firm only in terms of wage-labor-nexus.

Through the case of Brunck and Glaser we can discern the continuing tendency of separation between entrepreneurs with co-owner character and ones with genuine employee-character in the same executive-board which already had been well represented in the HRM-practices of the BASF of starting-up period. On the other hand, it is necessary to notice that the form of contracts of newly joining executives were to a great extent standardized, which the example of Brunck and Glaser showed above. In fact, the tendency of this contractual standardization gradually moderated the existing individualized personnel treatment of the ordinary executive-members: Engelhorn and Clemm renewed their own service-contracts with validity from January 1878 (of which complete regulations are not available now), in which the duration of the contracts was limited to 5 years like that of representative-directors (prior: ten years) and the modality of the notice period was adjusted to the regulation of representative-directors.

With regard to the relation between the tendency of standardization and individualization of the HRM for BASF-executives we must also examine the case of Heinrich Caro (1834-1910), one of the most important chemists in the history of BASF who set up the first central in-house scientific laboratory, and had been key-player in the Alizarin-production which brought about an immense commercial success in BASF. Caro became a representative director of BASF besides Brunck and Glaser, and had concluded the service-contract with almost the same contents which were applied to

Brunck and Glaser. That is, he also was one of the executives of BASF who were managed by a gradually penetrating standardized HRM-system. But his talent in the chemical and scientific matters was so outstanding that he, unlike his colleagues, tried to individualize his service-contract to the extent that it could reflect the maximum acknowledgement of his special talent by the firm.

His second service-contract concluded on February 6 1878 as a representative director has almost the same form as that of Brunck and Glaser, which shows that the HRM-matters for the employee-group “representative director” had been by and large uniformed until then. But his compensation was better than his colleagues with a higher annual salary of 14,580 Mark and a bonus equivalent to the 2 % of net-profit of BASF (twofold as much as that of Brunck and Glaser). In addition, his minimum compensation (sum total of annual salary and bonus) was guaranteed with 35,000 Mark annually, so that the firm could clearly show him the intention to maintain his motivation also during the period of bad business years. Surely according to the importance of his special ability for BASF, the amount of contract-penalty accounts for as much as 600,000 Mark, that is, as 6 times as high as that of Brunck and Glaser. And all his inventions which would bring in notable profit and the relevant patents were supposed to be property of the BASF without any special compensation. In short, with regard to the pecuniary matter he was individually favored; his obligation to his employer was accordingly greater.

In fact, Caro’s partially individualized regulations seem to have been obtained by his own effort: After 5 years, with the expiration of the contract above, Caro was appointed to an ordinary executive member. The supervisory-board firstly proposed to him at the end of 1883 that he should conclude a new “collegial-contract” of which form was conform to that of other 7 members of executive-board. The contents of such contract were same as those of former. Only the salary amount was slightly raised to 15,000 Mark. But he refused to sign it for the time being and insisted on introduction of an additional regulation in his contract which would enable him to get also the inventor-royalties for each of his invention⁵⁾.

Presumably he preferred to be treated on grounds of his former service-contract concluded on June 17 1867. According to that, Caro was charged with development of the synthetic dyes like Insulin and Naphthalin-Yellow. He was entitled to the bonus from 10 % of the net-profit earned by such dyes in case it didn't reach 100,000 Mark; for net-profit beyond that he was allowed to get further 2 %. The firm paid him 500 Guilder (sic) for his effort (not known whether annually or monthly) as a regular salary. For each of the dye invented by Caro in the future a new agreement of profit-sharing was to be concluded. The firm gratuitously delivered to him all the materials including chemicals needed for the invention of new dyes. On the contrary he had to keep secret the manufacturing method of the firm. About 2 years later, in virtue of a decision of supervisory-board made on July 4 1869, Caro, besides August Clemm and Carl Clemm, also came to enjoy a supplementary bonus allowance which enabled him to get 5 % of net-profit earned by production of benzene, alizarin and orange-dye to the development and production of which he had been assigned.

As we see, such a compensation-rule could have been more attractive for the highly qualified scientist like Caro than the one which provided him with the bonus from an anonymous profit-source because he could easily identify the money he earned with the brilliant scientific achievement he had satisfactorily reached. But it meant much more to the supervisory-board at that time that all the executive-members were equally managed through the uniform collegial contract excluding any kind of complicated and time-consuming private negotiation with each of them. Above all, the newest and final compensation-policy of the supervisory-board had been clear and decisive: The mindset of the executive-members had to be oriented to the maximization of whole corporate profit and not merely to the success of the products and inventions for which each of them was responsible. On the other hand, supervisory-board also recognized the necessity of Caro's individual treatment with regard to his period of service. Because of special character of his ability which was not only very influential on the profit-situation of the firm but also unable to be replaced as work-force, supervisory-board wished to retain him much longer than other executives. To accomplish this

purpose, supervisory-board proposed to him a special regulation which would not be stipulated in the common collegial contract of executives but in a private letter addressed to him, guaranteeing him an annual payment or pension of 10,000 Mark after the 21th service year in BASF until his death. But supervisory-board further continued to refuse the Caro's request for inventor-royalties which he used to get as an important incentive.

Because of the lack of available documents it is not known whether Caro could successfully negotiate his tailor-made working-conditions. The history tells us only the fact that Caro changed over to supervisory-board of BASF in 1890. But, at least, this experience shows that there was a clear tendency toward a standardization of the HRM applied to the BASF-executives in which the members of supervisory-board or owners of the firm tried to manage them with uniform regulations stipulating the same working-conditions for them. Naturally managers like Caro wished introduction of specialized or tailor-made HRM-regulations in their service-contracts while they themselves considered such individualized treatment as one of the greatest boosters of their performance incentive. Obviously, at latest in the 1880's, the true employers of the BASF didn't sympathize with this view. They preferred to manage their top-managers with collegial principle rather than with differentiated form of acknowledgement despite of variety of characters of such talents. This kind of decision was first of all derived from the necessity of avoidance of complicated individual negotiation, in other words, the necessity of reduction of the "Transaction-cost" adhered to the negotiation, which we can track in the historical documents which describes the process of negotiation between Caro and supervisory-board. But this personnel policy didn't deny an acknowledgement of the special ability or expected brilliant performances of top-managers at all. On the contrary: The HRM for executives of BASF represented by service contracts was perfectly separated from that of any other employee-group also long after the foundation-period. First of all, the allowance of the bonus directly related to the net-profit of the firm had been so privileged that it usually provided top-managers with reward which by far exceeded the regular

annual salary guaranteed to them, which shows that the executives had been managed as such personnel who earned their money principally gained by variable bonus as a symbol of the prosperity of the firm they belonged to and not by the fixed salary which was also guaranteed to non-managerial employees.

The intention of such HRM-method is obviously to make executives thoroughly identify with the business success and growth of the firm. Thus the supervisory-board tried to mobilize the super-talents making them devote themselves to the prosperity of the whole business organization, which shows that the desired behavior-pattern of executives of those days was a management-style in pursue of direct profit-maximization of firms including the continuing cost-reduction of manufacture-process. We shouldn't forget to add that the fixed salary of executive- members itself was by far higher as that of other employee-group, which shows that also the hierarchical distance-principle had been applied to construct the essential part of the HRM for executives. For example, the average annual salary-amount (without bonus) of non-managerial chemists/technicians/clerical employees was respectively 3,827/3,422/2,556 Mark in 1899⁶⁾. If we further compare the salary-situation of BASF-executives with the average wage of blue-collar workers in the region where the main factories of the firm existed, we can understand how large the compensation-gap those days had been: End of the 19th century, the blue-collar used to earned about 3.5 Mark dairy⁷⁾. That is, even if they worked 10 hours each day without any holiday for one year, they theoretically could get only 10 % of the amount which the representative-executives of the firm used to get as an annual regular salary.

On the whole, the results shows that the allowance of the corporal net-profit-bonus which endowed all the executives with the characteristic and quality of entrepreneurs. In addition, the collegial and uniform HRM which guaranteed them the privileged status in the management hierarchy came to be considered as the best-HRM-practice by the owners of BASF by the end of 19th century.

2. Payroll of Managers

Next we examine and compare the amount of the compensation actually paid to executives who had served at BASF from the late 1870s until the outbreak of the WWI. Because of the continuing inflation during the WWI and the subsequent hyperinflation until the end of the year 1923, the comparability of the salary-amount afterwards is very limited. So the salary amount paid after the end of the war is not taken into consideration. The table 1-1 and 1-2 show the salary payments (nominal amount) to the BASF-executives during the period of 1877-1889 and in 1914 on the annual basis (The information between 1865 and 1875; 1890 and 1913 is now not available). The names situated at the top of each list are those of CEOs. We can know from them that the amount of regular fixed salaries was almost standardized at the latest by the late 1870s. Also the director general Engelhorn, whose first service-contract didn't guaranty any regular salary, got the same regular salary as his colleague August Clemm in 1877, which supports the view of continually reinforced "collegial principle" of the HRM for all the top-managers. It is true that there had been the salary-ranks between the executives to some extent (see for example that of the year 1877 and 1880), but also such a salary-difference tended to diminish in the course of time. In the middle of 1880s, after the resignation of Engelhorn and Clemm, there were only two salary-ranks among the BASF-executives, and three out of four executives got the same higher salary of 15,000 Mark, which shows also the evidence of continuing tendency of salary-leveling. Later on, in 1914, like in 1880s, there were only two salary-ranks, though the number of the members of executive-board was much bigger than that of the 1880s. In addition, we can recognize that the nominal salary remained relative stable until the outbreak of the war in spite of the fact that the firm size of the BASF had expanded continually and inflation never ceased to go on. It is also worth mentioning that the difference of the executives-salaries had been not very big until the First World War.

Table 1-1 Salary of BASF executives from 1877-1899: annual

	In 1877	In 1880
Friedrich Engelhorn	20,571.48 Mark	20,571.48 Mark
Dr. August Clemm	20,571.48 Mark	20,571.48 Mark
Dr. Carl Clemm	14,580 Mark	14,580 Mark
Dr. Heinrich Caro	12,000 Mark	14,580 Mark
Dr. Heinrich Brunck	6,000 Mark	12,000 Mark
Dr. Carl Glaser	6,000 Mark	12,000 Mark
	In 1884	In 1889
Dr. Heinrich Brunck	15,000 Mark	15,000 Mark
Dr. Carl Glaser	15,000 Mark	15,000 Mark
Dr. Heinrich Caro	15,000 Mark	15,000 Mark
August Hanser	12,000 Mark	12,000 Mark

Source: BASF-Archiv “Salär-Conto” (c 652/1)

Table 1-2 Salary of BASF executives in 1914: annual

Privy Councilor Robert Hüttenmüller	24,000 Mark
Prof. Dr. Carl Müller	24,000 Mark
Privy Councilor Prof. Dr. August Bernthsen	15,000 Mark
Prof. Dr. René Bohn	15,000 Mark
Dr. Carl Bosch	15,000 Mark
Councilor of Commerce Lothar Brunck	15,000 Mark
Arthur Krell	15,000 Mark
Dr. Oscar Michel	15,000 Mark
Dr. Julius Schuncke	15,000 Mark
Ludwig Schnon	15,000 Mark

Source: BASF-Archiv “Salär-Conto” (c 652/1)

We have always seen BASF-executives were supposed to earn more money with bonuses than fixed regular salaries in line with the HRM-policy of the supervisory board. The analyses of service-contracts showed there had been differences of the percentage of the net-profit (for example between Engelhorn and Clemm) entitled to each executive-member as the determinant of annual bonus, that is, the bonus-regulations were

individualized in accordance with the importance of each human-capital. Unfortunately, about the exact amount of bonus-payment to BASF-executives we don't have perfect reliable information at the moment. At least Wolfgang von Hippel mentions in his contribution that Brunck as CEO earned about as ten times as much bonus (157,755 Mark) as his fixed salary (15,000 Mark) in 1899, which indeed confirms the thesis that executives as entrepreneurs earn mainly through bonuses⁸⁾. According to him, the representative-directors who used to be classified in the salary group of 12,000 Mark got the bonus of 78,878 Mark in the same year, that is, exactly half the amount of the CEO's⁹⁾. Thus we can recognize also the continuing tendency toward a greater individualization in the bonus-regulation of executive-members, though their salary-amount had been almost completely leveled by that time. From all the results presented above we can affirm that the bonus had been the most important compensation-component for executives from the beginning of the German large-scale chemical companies introduced as performance-incentive aligning the pecuniary interest of top-managers as entrepreneurs with the prosperity and long-term growth of the firms they belonged to.

Conclusion

The executives of the BASF, the world-wide biggest chemical company of today, had been employed entrepreneurs from the beginning, even if the managers of the first generation held no negligible number of shares besides their employers. So it is not inappropriate that we consider them virtually as a kind of employees or at least as a part of them. And we must take also the fact in consideration that by the time when Caro was appointed to the ordinary executive-member no shares of the firm were conceded to him, that is, the co-owner character of the employed entrepreneurs was denied in course of time. Seen from this standpoint, we can consider their compensation as that of white-collars who usually get regular salary and annually variable payment like bonus. But, naturally, we have discerned some features which characterize the executive-

remuneration: The supervisory-board as the true employer of BASF used the net-profit oriented bonus as the most important incentive for their executives as early as at the foundation-period, which remains the widespread and the most popular corporate practice applied to the managers of contemporary large-scale private enterprises of those day.

It is also true that the bonus-distribution-rule was individualized according to the expected performance which the executive concerned was believed to be able to deliver, which corresponds to the well-accepted assumption concerning the top-managers of today's private enterprises. And we shouldn't forget to point out that the amount of executive-bonus was tremendous also those days if compared with the wage or salary paid to average employees. But, on the other hand, the general structure of the HRM applied to executives was gradually standardized in virtue of the decisions made by supervisory-board which preferred the uniformed "collegial" treatment of employed entrepreneurs to the individualized one. What does this mixture of individualization of bonus-rule and standardization of general HRM mean? In order to answer it, we need a help of interpretation of historical process: From the beginning there had been a paradoxical need for the owner or supervisory-board of BASF to manage the executives not only as entrepreneur with employer-function but also as a part of employee, which reflected the true relationship between them. On the one hand, to endow the executives with the characteristic of entrepreneur, the symbolized form of incentive, that is, the net-profit oriented bonus which provided them with the amount indicating the special importance of their personality for the firm was needed. Naturally, the employees of subordinated management-level never enjoyed such an incentive. Such a demonstration of distance-principle in the HRM was not only effective between the executive-members and other employee groups, but also among the executives who saw the owner's appreciation of their entrepreneurial abilities in the individually weighted bonus-percentage. On the other hand, members of the supervisory-board preferred the collegial management-style among the executives which they thought could be realized only through the uniformed HRM-system summarized in the "collegial service-contracts"

commonly prescribed to all the executive-members, though at the period of foundation the individualized treatment had been considered as a best-practice. And it is understandable that the supervisory-board of BASF tried to legitimate a collegial HRM in order to save the pains of carrying on individual negotiation with each executive, if we take some experiences of the past into consideration that such an attempt often led to enormous expenses and loss of time.

On the whole the essence of the best HRM practice of the BASF formed in the end 19th century with regards to that of executives could be described as a combination of collegial treatment among the executive-members on the one hand and the individualized bonus-entitlement for them which was connected directly to the corporate profit and not built in the incentive-system of other employee-groups on the other hand, which must have helped to strengthen the solidarity-feeling of those belonging to the executive-board as entrepreneurs who had always been deprived of their co-owner function.

Last but not least the role of the supervisory-board must be emphasized as the regulator of all the HRM-matters in the foundation-period of BASF: First and foremost, its members had originally been investors and financiers who functioned as the true owner and employer vis-à-vis their employed entrepreneurs or executive-members. If they wished, they could even refuse to continue employment-relationships with their top-managers, which the resignation of Engelhorn in 1883 typically showed¹⁰⁾.

They standardized the HRM-regulations of BASF-executives so substantially that the collegial-principle came to dominate almost all the working-condition of executives which strengthened their well administrated employees-character. Also the individualized bonus-regulations were not decided by executives, but by supervisory-board, which is no more the rule in the contemporary large-scale companies. The executives could become limited shareholders but by no means true owner of the firm. All these facts tell us that the supervisory-board of those days had commanded an effective supervision-function and sanctioning-power vis-à-vis the executives and thus hindered agency-problems caused by them.

The supervisory-board became the institution required by law (law on stock

companies: Aktienrecht) since 1870 which had to be introduced in all the stock companies. The stipulated role of supervisory-board was the control of executive-board. It was also authorized to appoint and fire the executives. But, as the time went on, the relationship between executive-members and supervisory-board was condemned to change, because of the evolvement of the BASF into almost genuine manager-company by the time the building of the IG-Farben came into sight, which also meant the potential shift of the framework which might have influenced the decision-making of HRM-matters in German large-scale chemical companies.

In the present work, alone the case of the BASF is handled. The results certainly delivered us some important clues to understanding how the HRM-system for top-managers of a big-scale German chemical company represented by their compensation-system had been developed by the time of the outbreak of the WWI. But of course the results of this analysis are not sufficient for us to pursue the formation-process of the HRM-system perfectly which is effective in today's corporate business world. Alone for the complete understanding of relevant matters of large-scale German chemical companies we need further contemporary case studies at least of some comparable firms like Bayer or Hoechst so that we can confirm to what extent the best HRM-practice of the BASF had been valid across wide-ranging corporate world of German chemical industry. As a next step, a relevant analysis with a case study of the IG-Farben as the common successor-enterprise of these firms would be unavoidable to explore further development of the HRM-system for top-managers. We can generally assume that the HRM-practice of the German chemical companies of today has much more similarity with that of the IG-Farben than we can discern in the case-study of the BASF during its foundation period. The ultimate step that we must take to complete the task of revealing the complete structure of modern HRM-system for the executives including that of the incumbents in charge of top-management would be the analysis of the personnel-files of the IG-successor-firms from the postwar-time. But of course, we still need some more time and patience to attain this ambitious aim.

Notes

- 1 The information about the contents of service-contracts mentioned in this subsection is based on the documents from the corporate archive of BASF SE or BASF-Archive (Soziale Entwicklung-Anstellungs-Verträge von Chemikern u. Direktoren: C/627/2).
- 2 For the compensation of chemists before the First World War see G. Mayer-Thurow, “The Industrialization of Invention -A Case Study from the German Chemical Industry” In: *ISIS* 1982, 73 (268), pp.363-381. Mayer-Thurow engaged with the analysis of compensation-system of employed chemists who had served German chemical company until 1914 with a case study of Bayer. The treatise above mentioned informs us of the structure of the chemists-compensation of those days with example of some chemists. According to him, a chemist of Bayer used to get the contract of 5 year duration, in which an annual salary enhancement and profit-sharing based on the invention-royalties-revenue were stipulated.
- 3 W. Abelshauser (ed.), *Die BASF. Eine Unternehmensgeschichte*, Munich 2003, p.28.
- 4 In order to get the detailed information about compensation structure of German public mining industry in the early 19 century, we can consult U. Fliegauf, *Die Schwäbischen Hüttenwerke zwischen Staats- und Privatwirtschaft (1803-1945)*, (Ostfildern 2007), pp.172-182.
- 5 The process of the negotiation mentioned here is recorded in the protocol of the supervisory-board which we can find in the documents-number C/627/2 of BASF-Archive.
- 6 Abelshauser, *op. cit.*, p.107.
- 7 *ibid.*, p.112.
- 8 *ibid.*, p.106.
- 9 *ibid.*, p.106.
- 10 For the reason for the resignation of Engelhorn see *ibid.*, pp.50-52.