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## Industrial Policy and Social Strategy at the Corporate Level in Poland: Questionnaire Results

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Industrial and Social Policies in Countries in Transition

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# **Industrial Policy and Social Strategy at the Corporate Level in Poland: Questionnaire Results\***

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## **Introduction**

This paper presents results from a survey of industrial policy of the state and the social security system at the corporate level in Poland. Previous reports in this area indicated preferable directions of research to be taken in order to prove various hypotheses of the purposefulness of an integral approach to industrial policy and social security in the analysis of economic processes in transition (see Weikard 1997). This paper summarises the results and draws conclusions from a questionnaire study on subsidies, social benefits and economic policy in Polish firms during the process of transformation. Our results and conclusions show the scope and character of the processes in the area of industrial and social policy in the period 1994 to 1997.

The paper is divided into five parts. The first part concerns the aims and methodology of the questionnaire; it also gives a brief description of the sample. The second part shows how enterprises dealt with the issues of employment and wages in this period. The third part characterises industrial policy at the corporate level, while the next presents results from the survey of various social schemes pursued. The final part aims at an integral approach in the analysis of various processes taking place in Polish enterprises.

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The survey was conducted in the period April to June 1998. Its aim was to observe certain phenomena occurring at the corporate level. The questionnaire was distributed among the managers, directors and presidents of large-size enterprises, which had been selected to satisfy the following three criteria. Firstly, the number of employees had to be considerable (over 300 workers). This criterion was applied following the consideration that certain social phenomena are more conspicuous in enterprises with large manpower. Secondly, only operating enterprises were selected, the enterprises which closed down were disregarded. Finally, for the purposes of the survey the units differed as regards their legal situation and form of ownership.

Out of over 1800 enterprises 370 units were drawn where we sent the questionnaire.<sup>1</sup> Unfortunately, as many as 51.9% of the respondents refused co-operation, questions to a certain extent puts the representativeness of the sample in question. Finally, 178 questionnaires were subsequently completed and returned for analysis. However, not all of these questionnaires included full answers to all of the 75 questions; therefore, while discussing the results of the survey we have indicated the number of relevant answers we have received.<sup>2</sup>

## **1. Main Characteristics of the Enterprises in the Sample**

In this part of the paper we wish to present the most important parameters of the enterprises surveyed. Such a brief description seems to be necessary in order to know the context in which the relevant adaptation processes took place, as well as to make it possible to apply the conclusions to other Polish enterprises with similar characteristics.

### *The structure of ownership*

With regard to their ownership, the enterprises participating in the survey constitute a varied group. Before 1990 the majority of these enterprises (94.4%) were state-owned. It must be borne in mind, however, that the sample includes also enterprises which were already private companies before the period of transformation (3.4%).<sup>3</sup> In the 90-ties most of the enterprises

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<sup>1</sup> The selection was completed in three stages. Due to the fact that the initial response was rather poor, additional enterprises were selected in order that the survey should cover the largest group possible.

<sup>2</sup> Where not indicated specifically, the number of answers (N) equals 178.

<sup>3</sup> The remaining figure (2.2%) refers to those companies which did not exist at that time because they were founded only after 1990.

(62.9%) were privatised. At present (1998), only 23.6% of the enterprises are still state-owned. This does not mean, however, that the other units belong exclusively to the private sector. Private companies constitute only 14.6% of the sample. The remaining enterprises represent various forms of ownership (see Table 1-1.). This has been due to the fact that, firstly, the companies are in various stages of privatisation – in as many as almost 31% of the enterprises the process has not been completed yet, and, secondly, the methods adopted in the process of privatisation in Poland vary to a great extent (see Bednarski 1998).

*Table 1-1. The ownership form and scope of employment in enterprises (in %)*

Ownership form in 1998	Number of employees in 1997					Total
	0-250	250-500	500-750	750-1000	1000-...	
State-owned enterprises	35.7	33.3	13.9	13.0	15.2	23.6
State Treasury stock companies	14.3	12.5	16.7	8.7	18.2	14.0
Companies with State Treasury share	14.3	12.5	22.2	8.7	24.2	16.3
Enterprises belonging to National Investment Funds	7.1	4.2	25.0	30.4	30.3	16.9
Companies formed through liquidation of state-owned enterprises	14.3	20.8	8.3	21.7	3.0	14.6
Private companies	14.3	16.7	13.9	17.4	9.1	14.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Own calculations.

Originally, State Treasury stock companies were planned as transitional legal entities, the ultimate aim being their privatisation. However, some companies have retained this status until today. In companies with the State Treasury share, crucial decisions have been made by both parties: representatives of the private sector and the State Treasury. Enterprises belonging to the National Investment Funds or companies formed through liquidation of state-owned enterprises are typical transitional forms on the way to full privatisation. As far as the latter group is concerned, in most of them the process of privatisation is being completed by means of company leasing. Staff members participating in the leasing will in a few years become the legal owners of a particular unit. In the period referred to in the questionnaire enterprises belonging to the National Investment Funds were not yet subject to an owner's supervision since they were being organised at that time. The group of private companies is not homogeneous either: most of them used to belong to the state sector and have been privatised since then.

### *Employment structure and wage system*

As already mentioned, the enterprises surveyed are medium- or large-size companies; in the years 1994 and 1997 they employed in the average 761 and 672 people, respectively. Employees were mainly men (in 1997, in the average 59.8% of the total number of employees) and manual workers (73.3%).

Trade unions were active in the majority of the enterprises surveyed (88.7%). In almost 3/4 of the enterprises (73.5%) two or three different trade unions had their representation. The majority of the companies declared that co-operation with trade unions was good. Only in 7.3% of the companies industrial actions had ever been staged. It seems that this factor may have had strong influence on the level of wages as well as on provision of social benefits by the employer.

In 1997 the average gross wage in the enterprises surveyed was PLN 1048.82, i.e. 90.9% of the average wage in the corporate sector.<sup>4</sup> The wages were lower than the average wages in the corporate sector in most of the enterprises (64.8%). As far as the change in wages is concerned, the absolute real increase in the period 1994 to 1997 was 18.38%, so we can talk about a substantial increase.<sup>5</sup>

### *The situation of the companies in the market*

Most of the enterprises (81.9%) belong to the manufacturing sector. Other sectors represented are construction (5.6%) or wholesale and retail (4.0%). Other types of economic activity represented by the enterprises surveyed are not numerous, however such sectors as agriculture or mining were not included in the sample at all.

Most of the enterprises operating in market economy were aware of competition. Only 6.7% had the opinion that there was no competition in their field.<sup>6</sup> Most of the companies evaluated their contribution to the domestic market as rather insignificant: as many as 15% of the companies, while more than half (52.8%) evaluated their market share as only up to 20%.<sup>7</sup>

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<sup>4</sup> For the corporate sector the figure is PLN 1154.10. The figure has been estimated by taking an arithmetic mean of the two figures supplied by the Central Statistical Office, representing the average gross wage in the corporate sector plus profit share and the average wage without profit share.

<sup>5</sup> The authors' calculations. The real numbers have been calculated by using as a deflator the consumer price index (CPI).

<sup>6</sup> The number of correct answers N=165.

<sup>7</sup> N=163.

Competition is recognised mainly among Polish enterprises (57%), although over a third of the companies (35%) declare that their position on the market is influenced by both Polish and foreign competitors. Competitors' strength is regarded mostly as serious, on the scale from 1 to 5 the weighted average being 4.37.

Only 23.2% of the companies were in deficit, while over 3/4 (76.8%) were profitable. However, the company's profitability was generally regarded by the management as moderate: although 54.2% of the managers considered their company profitable, they evaluated their profit margin as low. The majority of the companies (96.6%) made some sort of investment in the period surveyed, almost 48% regarded the investments as considerable. Only 3.4% of the companies made no investments. 26.4% of the enterprises exported a large part of their overall production, while 24.7% did not export their products at all.

#### *Scope of state subsidies for the enterprises*

State aid for Polish enterprises has been the subject of both, research and discussion for several years (see Fornalczyk 1996). Attempts have been made to regulate the issue legally (see MG 1998). State subsidies can obviously hinder free competition in a particular domestic market, although not all types of subsidies influence the market in this way.<sup>8</sup> Hence, it seemed relevant to include in the questionnaire a few questions regarding the scale and forms of state subsidies for the enterprises.

The answers show clearly that the companies were financially independent (see Table 1-2).

*Table 1-2. State subsidies in the period 1994 - 1997*

Item	Number of companies (%)
Company received no state subsidies	84.3
Company received small subsidies	12.9
Company received large subsidies	2.8
Total	100.0

Source: Own calculations.

Over 4/5 of the enterprises (84.3%) did not receive any state subsidies in the period 1994 to 1997. In only five cases (2.8%) state support was regarded as considerable, while 12.9% received only small subsidies.

<sup>8</sup> Subsidies towards certain goods, of a general character, should not upset free market competition. See Kurowski 1998, pp. 2-5.

More detailed questions concern the purpose of the subsidies granted to the companies. One company (0.6%) received a subsidy towards the social benefits scheme for the staff. Five companies (2.8%) received wage subsidies. Several companies (10.7%) obtained some financial support for investment, although the investment was not centrally planned.

On the whole, the survey gives a rather comprehensive picture of the Polish economy, although medium-size enterprises in the manufacturing sector seem to be represented best in the sample. For the other groups of enterprises representation is much worse so that the hypothesis formulated below have to be interpreted very carefully.

## 2. Employment and Wages in the Enterprises

Examining the connections between social and industrial policy at the corporate level, we try to demonstrate that employment policy and wage policy have apart from their economic also social functions. Therefore our questions were concentrated on this issue. The theses formulated here apply to under Polish conditions medium-size enterprises (see Table 2-1.) with employees' wages lower than average wages in the corporate sector (64.2% of the companies surveyed).

*Table 2-1. Employment*

Number of employees	Number of companies (%)
Less than 250	7.9
250 – 500	40.4
500 – 750	20.2
750 – 1000	12.9
Over 1000	18.5

Source: Own calculations.

When analysing the employment policy one must consider the fact that the enterprises did not point to any considerable labour reserves. High productivity (more than 80% of effective working time) in 1997 was indicated by 89.9% of the companies with regard to manual workers and by 91% of the companies with regard to office workers. This is rather surprising considering the fact that at the beginning of the process of transformation a number of companies experienced serious problems connected with decreasing demand for their products and excessive employment (see Bednarski 1995). Two mechanisms may have been applied in these cases – dismissals of workers on the one hand or a growing labour demand as consequence of an increasing demand for the products on the other hand. In the enterprises

surveyed the real growth of the turnover in the period 1994 to 1997 was 18.2%. Thus, there could not have been any dramatic increase in demand for labour.

Table 2-2. below shows the scale of dismissals.

*Table 2-2. Dismissals in the period 1994 –1997*

Dismissals	Number of enterprises (%)
None	2.3
Less than 3% of the staff	21.5
3 – 10% of the staff	39.5
More than 10% of the staff	36.7

Source: Own calculations.

The table shows considerable dismissals in over 1/3 of the companies and quite significant in another 1/3 of the companies. This means that effective utilisation of labour was the result of the two processes mentioned above.

An analysis of the main characteristics of the companies with a considerable number of workers released shows some interesting aspects. The first is the connection between dismissals and the form of ownership. The greatest number of dismissals (more than 10% of the staff in the period 1994 to 1997) was noted in the companies created through liquidation of state-owned enterprises (52.0%), i.e. most probably in companies where the staff would have been expected to have the best protection. The number of workers released was the smallest in the companies belonging to the National Investment Funds (26.7%). The explanation of the fact might be as follows: companies created through liquidation of state-owned enterprises were usually weak and required considerable restructuring. Also, in the period surveyed the National Investment Funds were still not developed enough to force restructuring pressures upon their members. With regard to the other forms of ownership the numbers fluctuated between 31.0% (state-owned enterprises) and 40.0% (State Treasury stock company).

Dismissals were largely due to the economic situation of the company (profitability), which is shown in Table 2-3. below.

*Table 2-3. The scale of dismissals in the period 1994 – 1997 and profitability*

Profit	Enterprises according to the scale of dismissals (%)			
	None	less than 3%	3 – 10%	more than 10%
Large	7.5	25.0	40.0	27.5
Small	1.1	25.3	43.2	30.5
Deficit	0.0	9.8	29.3	61.0

Source: Own calculations.

The table shows that over 60% of the companies showing a deficit and only 1/3 of the profit-making companies had to dismiss a great number of staff. However, dismissals took place in a number of profit-making companies as well, although on a smaller scale. Thus, not the form of ownership but the company's economic situation had crucial impact on the employment policies pursued by the companies.

Nevertheless, we have also tried to determine the influence of trade unions on the employment policy, which is shown in Table 2-4.

*Table 2-4. The scope of dismissals in the period 1994 – 1997 and union activity*

Union activity (%)	Enterprises according to the scale of dismissals (%)			
	None	less than 3%	3 – 10%	More than 10%
No trade unions	11.8	11.8	29.4	47.1
Up to 25	0.0	30.0	30.0	40.0
25 – 50	1.6	21.3	39.3	37.7
50 – 75	1.6	22.2	41.3	34.9
75 – 100	0.0	15.4	61.5	23.1

Source: Own calculations.

The number of workers released decreased in the companies with strong union representation. However, there is no basis to claim that the best enterprises have strong union representation. The unions helped to reduce the number of dismissals but did not prevent them altogether. They would only lower the scale of dismissals. Thus, the thesis that employment policy had rather an economic than a social basis is only slightly weakened here.

Searching for other arguments justifying enterprise decisions regarding the employment, we observed the main criteria for dismissals. We have asked the respondents to indicate three criteria from both, the economic and social sphere. As many as 84.8% of the employers indicated, although in different order of importance, the criterion of pension entitlement, i.e. a social criterion. A person with a guaranteed income was made redundant. Other criteria were purely economical: poor quality of work and efficiency (59.5%) as well insufficient qualifications for the particular job (36%). Other social criteria were hardly ever applied (less than 4% responded to each of the remaining criteria). The other social criteria were whether

employee was single or had no children (i.e. no family responsibilities), the spouse was employed full time (i.e. another source of family income), an employee had the status of a farmer – worker (i.e. an alternative source of income). The above mentioned results seem to support the thesis that economic criteria dominated in employment policies. Only the pension entitlement could be the reason for dismissal, the only one which is different from the employees work efficiency. In the situation of high unemployment it would have been difficult for other staff members to accept that an employee who is entitled to a pension would hold a position which could be potentially given to another person.

Although employment policies were rather economically oriented, there existed small reserves of unused working time and, consequently, of excess manpower. We have tried to find an explanation to why and how excess manpower was retained. In this case, too, economic criteria dominated the social criteria. The criteria for retaining the staff temporarily unoccupied were considered first. The respondents were asked to indicate two out of four reasons. 49.5% of the employers expected that in the future the production would increase. Thus, in their opinion, the cost of layoffs and then hiring and training new employees would be too high. The prospects of an increase in demand for certain products and, consequently, for the necessary labour, seemed to be positive. 26.4% of the respondents were afraid that in the future it might be difficult to find new employees with similar qualifications. This was the second most popular choice. As many as 22.5% of the respondents pointed to legal restrictions regarding dismissals, which indicates the inflexibility of the Polish labour market. Only 17.4% of the respondents pointed to social criteria, and such answers were usually the second choice. 32.0% of the respondents did not mention any need to keep staff members temporarily without any occupation.

It is noteworthy that certain methods applied to shorten working time and to retain the level of employment reflected in the questionnaire correspond with the hypothesis that this practice is not very common and becoming even more rare. Thus, 40.4% of the employers forced their employees to take a leave. This method, however, cannot be used for an extended period of time. Unpaid leaves and a shorter working week were approved by only 18.0% and 11.2% of the respondents, respectively, although these forms would have enabled to keep excess manpower longer than the other forms mentioned. It should also be pointed to the fact that the problem did not arise at all in 37.1% of the enterprises. To recapitulate, we can say that the practice to retain excess labour for social reasons was not widespread in the mid-nineties.

Social goals, beside employment policy, can also be achieved through wage policy. The questionnaire contained several relevant questions. The respondents were asked to evaluate five options indicated in the questionnaire. 73.6% of the respondents evaluated economic criteria (effectiveness) as factors influencing wage policy strongly or moderately – this was the most popular answer. Union and staff pressures were evaluated similarly by 46.1% of the employers. Only 6.1% of the employers chose social criteria. Therefore, the thesis can be stated that wage policy, too, is mainly controlled by economic criteria connected with pressure from the trade unions. Social criteria are insignificant. However, wage policy is also influenced by the work of the Tripartite Commission (35.4% answers describing the influence as strong and quite strong) and the attempts to compensate for the inflation (28.6%). The latter may be both, an autonomous element and an argument during the discussions in the Tripartite Commission or on the enterprise level.

The conflict between the economic and social criteria applied in wage policy is particularly apparent while considering wage differentials. In the period surveyed as many as 52.5% of the companies indicated growing differences in wages, and only 13.0% registered a decrease. This fact confirms the thesis that economic rather than social considerations of the employers are what matters.

We have also attempted to identify the factors which influenced wage differentials. Initially, we examined the relation between the form of ownership and the wage differentials. The results are shown in Table 1-5. It is obvious that there is a strong relation between the form of ownership and the wage differentials. Wage differentials increased most often in the companies with the State Treasury share, i.e. in the companies which probably had a new private co-owner. This was due to the fact that the new owner introduced new management principles. However, it is rather surprising that a similar situation would occur in companies belonging to the National Investment Funds. In the period examined the companies' new owners did not take over yet. Accordingly, various groups of employees tried to secure the best wages possible before an active investor took over. The differences in wages increased most rarely (but not infrequently) in state-owned enterprises and companies created through liquidation of state-owned enterprises, which is understandable. Workers' self-management, workers' groups and trade unions, still strong in these companies, did not encounter any firm opposition from advocates of capitalism. As a result more egalitarian arrangements were favoured.

Table 2-5. Wage differentials and the form of ownership

Form of ownership	Enterprises according to wage differentials in the period 1994 – 1997 (%)		
	Differences increased	Differences diminished	There was no change
State-owned enterprise	48.8	12.2	39.0
State Treasury stock company	36.0	20.0	44.0
Company with State Treasury share	72.4	3.4	24.1
Private enterprise	53.8	11.5	34.6
Company created through liquidation of a state-owned enterprise	42.3	19.2	38.5
Company belonging to National Investment Fund	60.0	13.3	26.7

Source: Own calculations.

We have decided to analyse the pressure of trade unions in this area in more detail. The results are shown in Table 2-6. The influence of trade unions on wage differentials, albeit moderate, is slightly visible. There is a certain tendency that under stronger union activity<sup>9</sup> more companies register diminishing differences in wages.

Table 2-6. Wage differentials and union activity

Union activity (%)	Enterprises according to wage differentials in the period 1994 – 1997 (%)		
	Differences increased	Differences diminished	There was no change
There are no trade unions	35.3	17.6	47.1
Up to 25	50.0	10.0	40.0
50 – 75	53.1	15.6	31.3
75 – 100	46.2	23.1	30.8

Source: Own calculations.

Obviously in enterprises in which no active union representation, does exist, wage policy has been more egalitarian than in the other companies. Because trade unions are generally not active in companies privatised through company leasing, so this attitude is understandable.

We have also tried to analyse the relation between the wage differentials and the economic condition of an enterprise (its profitability). The results are shown in Table 2-7.

<sup>9</sup> Union activity is measured as degree of organisation, i.e. the relative share of employees being a member of the trade union.

Table 2-7. Wage differentials and profitability

Profitability	Enterprises according to wage differentials in the period 1994 – 1997 (%)		
	Differences increased	Differences diminished	There was no change
High	42.5	7.5	50.0
Low	57.3	15.6	27.1
Deficit	51.2	12.2	36.6

Source: Own calculations.

The wage differentials did not usually increase in the companies which made the highest profit. Companies whose economic condition was weaker applied one of the two contrasting strategies. They would either increase the differences, probably hoping that the wage system would improve their situation, or they would reduce the differences in order to distribute their modest resources equally. The fact that the latter strategy was pursued rather seldom indicates that in this case, as in the other cases, economic criteria predominated over social criteria.

To recapitulate, we would like to state that the enterprises did not try to implement any firm social policy through employment and wages. Economic criteria clearly dominated. Trade unions and other workers' groups tried to put some pressure but their influence was rather limited.

### 3. The Influence of the State and Industrial Policy

A serious discussion about the model and character of industrial policy took place in Poland in the period of transformation, with two opposing view points. On one hand, there were advocates of active forms of state intervention in the real economic processes, such which supported companies or industries directly through particular fiscal arrangements. This approach was taken mainly by opponents of fast reforms which in the early nineties incurred high social costs. On the other hand, economists and politicians with a liberal view expressed were of the opinion that the role of the state should be limited to promote industrial development by means of providing an appropriate legal framework and creating technical and institutional infrastructure (see Bednarski 1998).

Beside the discussions about the goals of Polish industrial policy, surveys of the scale and forms of state support for the corporate sector were conducted (see MG 1998, MPiH 1995). Large government subsidies for the corporate sector were reduced as early as in the eighties. In the transformation period the subsidies were drastically limited from 13.5% of the GNP in

1989 to approximately 0.7% of the GNP in 1996. State aid in the period 1995 to 1996, including also other forms of subsidies, was estimated at 2.5% to 3.2% of the GNP. State aid included mainly subsidies and public dues exemptions as well as soft loans (see Kurowski 1998, p.13). Earlier surveys and the practice indicate that as far as provision of state aid was concerned, no clear criteria were followed. Consequently, state aid did not achieve its goals since *de facto* it did not do anything to improve the situation of the enterprises. Therefore, numerous attempts have been made to rationalise the process of state aid.

The opinions and hypotheses about the scope and forms of state support should be compared with the results of the questionnaire. The aim of the questionnaire was, among others, to illustrate various mechanisms of industrial policy at the corporate level. The analysis below will follow two paths. Firstly, it is worth checking how the enterprises evaluate the influence of the state on key areas of their activity. Secondly, we would like to determine which factors conditioned or facilitated provision of state subsidies or other forms of state aid for a particular enterprise.

#### *Influence of the state on selected economic processes*

Out of a great number of areas likely to be influenced by state authorities, four key areas have been selected: 1) price fixing, 2) manpower, 3) provision of social benefits, 4) wage policy. The respondents were asked to evaluate the influence of the state on the above mentioned areas. The first question concerned the current influence of state authorities, which the respondents could grade from 1 = non-existent to 5 = strong influence. The second question concerned the dynamics of the influence of the state on those areas in the period 1994 to 1997 (three choices).

It can be expected that after a ten-years period of transformation, in which state subsidies were drastically limited and the obligation to provide workplaces was abolished (creating the risk of open unemployment), state aid and influence on the areas mentioned above will be evaluated as insignificant or negative.

*Table 3-1. Evaluation of the influence of the state on selected areas of corporate activity*

Item	Price fixing	Employment strategy	Social benefits	Wage policy
Evaluation of the influence of the state*	2.15	1.53	2.30	2.65
Evaluation of the dynamism of this influence in the period 1994 – 1997**	1.76	1.70	1.87	1.90

Source: Own calculations.

Remarks: \* N=176. The weighted average from five possible answers: 1 – non-existent, 2 – small, 3 – moderate, 4 – quite strong, 5 – strong influence. \*\* N=174. The weighted average from three possible answers: 1 – the influence weakened, 2 – the influence did not change, 3 – the influence strengthened.

The results of the survey confirm this hypothesis (see Table 3-1.). The current influence of the state on the indicated areas was evaluated predominantly as negative: the weighted average<sup>10</sup> is usually around the values 1 and 2, i.e. “non-existent” and “small”, although there were certain differences within each of the four selected areas. As the respondents’ answers indicate, the state exerts the strongest influence on the area of wage policy, where the weighted average is 2.65. The value means that the majority of the enterprises surveyed regarded the influence as moderate. The influence is the slightest in the area of employment policy, with the weighted average of merely 1.53.

As to the evolution of the influence of the state since 1994, the evaluation is practically the same for each of the key areas. The average is below 2, which means that the influence of the state weakened in all the four areas. As before, the respondents indicated employment policy as the area in which the state has lost most of its influence (weighted average 1.7). The influence of the state on wage policy hardly changed (1.9).

In view of the above results we can say that most of the companies recognised and interpreted state policy correctly. Most of them declared that in the period surveyed the influence of the state on the key areas of their activity diminished and the current influence could be characterised as non-existent or insignificant. The different results can be easily explained. A relatively small part of social spending is used to pay for unemployment benefits, most of the funds were allocated in favour of the pension system (see Golinowska 1998), although the unemployment figures are still rather high (11.9%). Therefore, the influence of the state in this area is perceived as insignificant. On the other hand, the situation in the area of wage policy can be influenced by the decisions of the Committee for Setting the Minimum Wage,

<sup>10</sup> The weighted average has been estimated by using the values from 1 to 5 and 1 to 3, respectively.

in which representatives of employers, trade unions and the government determine the level of the minimum wage.<sup>11</sup>

With the general picture of the role of the state in mind one can ask whether the evaluation of this role depends on other, potentially crucial variables. The evaluation of the influence of the state seems to be determined by the form of ownership, profitability and union activity in an enterprise.

The results of the questionnaire do not support the thesis about the relation between the form of ownership and the evaluation of the state influence on price fixing and manpower. In both cases the weighted average does not vary much. In fact, the evaluation is almost the same in the case of state-owned and private enterprises, i.e. companies with opposing forms of ownership.<sup>12</sup> However, different evaluation of the influence of the state on the area of social benefits and wage policy is related, although not strongly, to the form of ownership (see Graph 3-1.).

Similar conclusions can be drawn regarding the evaluation of the dynamics of the influence of the state on the selected areas in the period 1994 to 1997.<sup>13</sup> The results of the survey allow to conclude that the form of ownership does not determine the process of decision making at the corporate level. Similar results obtained for the companies representing opposing forms of ownership may have been due to the fact that the majority of private companies used to belong to the state sector.

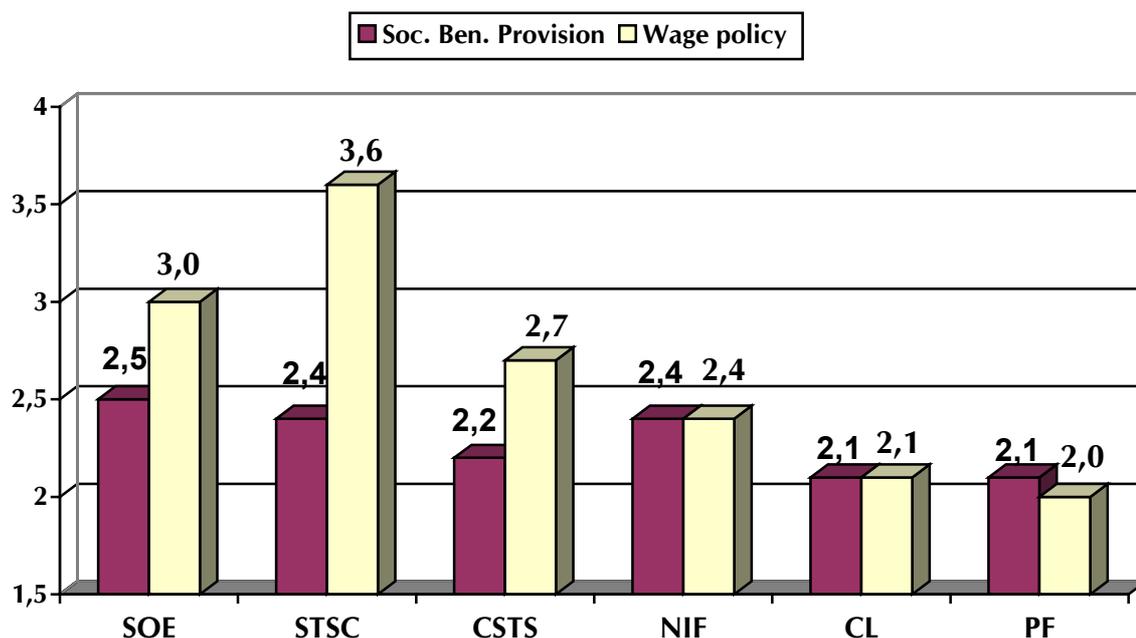
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<sup>11</sup> The minimum wage in 1997 was 450 PLN, what was about 42% of the average wage in the economy. It is worth mentioning that a high level of minimum wage caused unemployment, especially for women and young people.

<sup>12</sup> E.g. the current influence of the state on manpower was evaluated, 2.02 and 2.00, respectively.

<sup>13</sup> The results are available on request.

Graph 3-1. Evaluation of the government's influence on provision of social benefits and on wage policy for firms with different forms of ownership



Source: Own calculations.

Remarks: \* N=176. Weighted average from 5 possible answers : 1 – non-existent , 2 – weak, 3 – intermediate, 4 – slightly strong, 5 – strong.

Symbols:

SOE – state-owned enterprise, STSC – State Treasury stock company, CSTS – company with State Treasury share, NIF – enterprise belonging to NIF, CL – company created through liquidation of SOE, PF – private firm.

With regard to profitability, a thesis has been proposed that companies showing different profitability will evaluate the role of the state differently. Highly profitable companies should evaluate the influence of the state much weaker than companies having a deficit or only low profitability.

However, the results of the questionnaire do not confirm such assumptions. The weighted average is usually lower for the companies making a low profit than for the companies making a high profit or showing a deficit (as far as wage policy is concerned the figures were, 1.64, 1.45 and 1.61 respectively). It seems, however, that the evaluation of the dynamics of state aid in the relevant period is related to profitability. The differences between the companies making a high profit and the other companies are clearly seen, at least as regards price fixing and wage policy (see Table 3-2.). The conclusion is that the companies showing a deficit or making a low profit are faster in perceiving the changing role of the state regarding various economic processes in the period 1994 to 1997.

*Table 3-2. Dynamics of the influence of the state on selected areas and profitability*

Item	Price fixing	Employment strategy	Social benefits	Wage policy
High profitability	1.97	1.90	1.95	1.85
Low profitability	1.69	1.65	1.91	1.98
Deficit	1.70	1.65	1.66	1.75

Source: Own calculations.

Finally, union activity also seems to have some influence. Trade unions can put pressure regarding state aid not only on their own members but eventually on the managers as well. A certain model may have been created in the cases of totally different arrangements in the shipbuilding industry – the Gdansk and Szczecin shipyards, where strong union pressure or its absence influenced executive decisions regarding their transformation.

The results obtained did not support the above assumption, except in the area of wage policy. In companies where union representation was small or not existing (up to 25% of the staff) perceived the role of the state in the selected areas as more significant than the companies where unions were very active (see Table 3-3.). It seems that this outcome is determined by the strength of the trade unions within the Tripartite Commission and the fact that employers seriously regard the influence of the commission on the level of wages as very important.

*Table 3-3. Evaluation of the influence of the state on the selected areas and union activity*

Union representation share	Price fixing	Employment strategy	Social benefits	Wage policy
None	2.37	1.75	2.50	2.50
0 – 25 %	1.85	1.40	2.10	2.35
25 – 50%	2.13	1.57	2.30	2.80
50 – 75%	2.27	1.49	2.40	2.67
Over 75%	2.15	1.46	2.23	2.77
Total	2.15	1.53	2.30	2.65

Source: Own calculations.

### *The scope and forms of state aid*

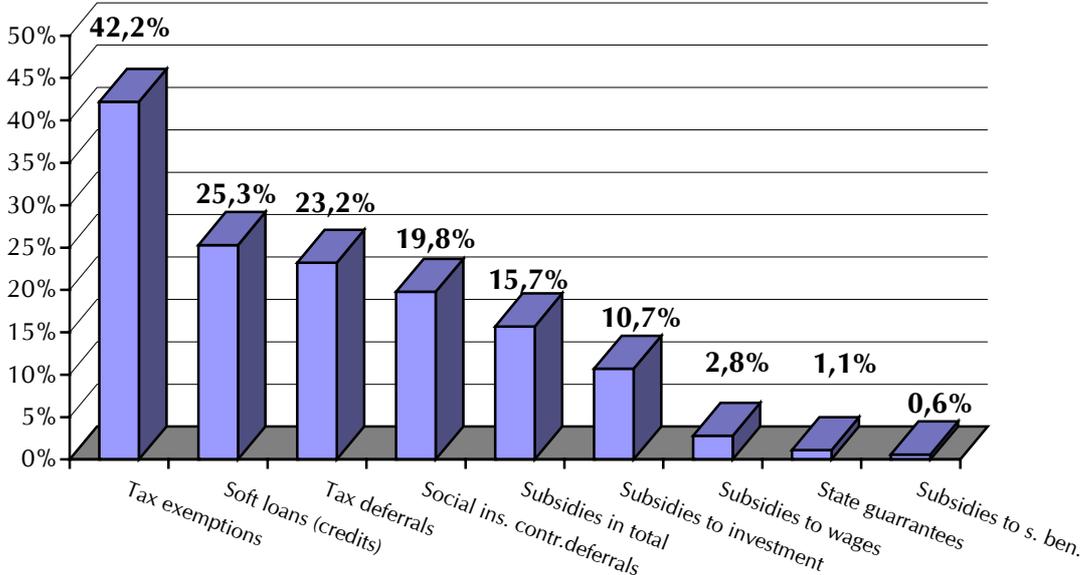
Because the questions in this section were of rather qualitative character, the enterprises did not indicate the value of state support. Therefore, it is difficult to assess the extent of this support. However, the information about the scope of the support can also help to understand certain trends.

As has already been mentioned in Part I of this paper, 15.7% of the enterprises received state subsidies. In view of this result, the extent of state subsidies to the corporate sector in the

period 1994 to 1997 can be regarded as rather small. However, state subsidies were by no means the only form of state aid (see Graph 2-3.). In the period 1994 to 1997 the extent of tax exemptions was more than double as high (42.2%). Over 1/4 of the enterprises received soft loans. For more than 1/5 of the companies their tax dues were written off. It is worth to note that in only one company (0.6% of the sample) social benefits were subsidised, which is in a clear contrast with the Russian practice (see Commander and Schankerman 1997).

The results obtained show that in the period of transformation the state could still influence considerably the situation of an enterprise, although different tools were used (limitation of subsidies in favour of taxes concessions and credits). If we take any of the above forms of support, it turns out that in the period 1994 to 1997 73% of the enterprises received state aid.

Graph 3-2. The scope of the state aid in the enterprises in the period 1994 to 1997



Source: Own calculations.

It might be worth considering which of the companies surveyed were the main recipients of state support and whether there were any factors facilitating or obstructing state aid. However, since the scope of state aid is too wide, it will be better to select and analyse only one element. We have chosen the most explicit form of state aid, i.e. subsidies, and examined which variables could have facilitated the process.

Firstly an assumption has been made that the allocation of state subsidies depends on the sector the firm belongs to. The results of former surveys indicated that state aid in Poland was directed mainly to state-owned enterprises (see Fornalczyk 1996).

*Table 3-4. State subsidies in the period 1994 – 1997 and the form of ownership*

Type of enterprise	%
State-owned enterprise	11.9
State Treasury stock company	24.0
Companies with State Treasury share	37.9
Companies belonging to National Investment Funds	13.3
Companies created through liquidation of state-owned enterprises	3.8
Private enterprises	3.8
Total	15.7

Source: Own calculations.

The results summarised in Table 3-4. show a certain diversity as far as access to state subsidies is concerned. The data do not indicate a linear correlational tendency. It seems that private companies received state subsidies much more seldom than, for example, the State Treasury stock companies or state-owned enterprises. The largest allocation, almost 40%, was made to companies with a State Treasury share. The situation can easily be explained by the fact that companies whose owners represented both the private and state sectors used the situation effectively for rent seeking. Private capital may have been attracted to these companies by means of formal and informal commitments made by state authorities (such as easier access to subsidies). The hypothesis proposed seems to be correct.

Another assumption is that subsidies are granted on social reasons. Let us assume that the level of subsidies depends on the activity of trade unions in an enterprise. Enterprises in which trade unions are very active will probably request and receive state subsidies more often.

*Table 3-5. State subsidies and union activity*

Union activity in an enterprise	%
None	10.1
Up to 25%	5.4
25 – 50%	13.1
50 – 75%	17.2
Over 75%	38.5
Total	15.7

Source: Own calculations.

Table 3-5. confirms that the assumption made was correct. The disproportion in state subsidising is considerable. The companies where trade unions are very active are obviously

privileged. Almost 40% of the companies in which over 75% of the staff were trade union members received subsidies from the state. However, the companies where union members constituted only up to 25% of the staff received subsidies very rarely (5.4%).

The state subsidised more frequently the companies which did not dismiss their staff. Only 12.3% of the companies where dismissals were considerable (over 10% of the staff) received subsidies. The companies where no more than 3% of the staff were made redundant received state subsidies almost twice as often (23.7%).<sup>14</sup> On the basis of the results of the questionnaire we can state that government funds were allocated to some companies in order to maintain their current level of employment.

We can also examine whether state subsidies are granted to companies making a profit or showing a deficit. The hypothesis is that public funds are wasted since financial support is given to units showing a deficit, which cannot afford restructuring. The results of the survey have confirmed the hypothesis (see Table 3-6.). State authorities granted subsidies to 1/3 of the companies which showed a deficit and only to 10% of the companies making a high profit.

*Table 3-6. State subsidies and company's profitability*

Profitability	%
High profitability	10.0
Low profitability	12.5
Deficit	29.3

Source: Own calculations.

Another fact confirms the hypothesis that the state supports short-term activities and enterprises showing a deficit more readily than companies making investments. Table 3-7. shows clearly that the aim of subsidising is not to support companies through investment but rather to fund day-to-day operations and social schemes of companies whose poor financial standing could lead to a mass dismissal of workers.

*Table 3-7. State subsidies and investments*

Investments	%
No investments	33.4
Small investments	18.3
Heavy investments	11.8

Source: Own calculations.

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<sup>14</sup> Detailed data are available on request.

To summarise, one can notice a diminishing or small influence of state authorities on key areas of a company's operation on the market (employment, wages, social benefits, etc.). The companies surveyed are aware of the change in the role of the state. At the same time, they did not show any great differences in assessing this role. It seems that neither the form of ownership nor the financial situation of a company determines how the role of the state is evaluated. Considerable diversity has only been observed in relation to the pressure applied by strong trade unions in the area of wage policy.

Secondly, real support offered to enterprises by state authorities takes different forms. The support is offered to a large number of companies. However, the assessment of these mechanisms made on the basis of our survey is worrying: the aim of the support is not to develop companies but rather to mitigate their current difficulties. The thesis that industrial policy in the period 1994 to 1997 had also social goals, for example labour hoarding, has been confirmed.

#### **4. Social Policy and Social Benefit Provision in Polish Enterprises**

The scale and scope of employer's social policy are determined by market mechanisms, the relevant policy of the state and the situation stemming from the previous era. The latter is related to the fact that in the centrally planned economy state-owned enterprises were regarded as one of the tools of social policy. As such they would both produce various social benefits and distribute them among the staff. For this purpose, employers would make obligatory financial contributions, which could be increased on a voluntary basis (see Uscinska 1998). Since no market mechanisms existed at that time, it was not difficult to transfer the costs to consumers. Consequently, a vast and rather diversified social infrastructure was created, while workers were convinced on their entitlements to benefits from this type of support.

In the act of 1994 the state provided a legal basis for the establishment of a company social benefit fund (see Dz.U., No 43, Item 163). Unless the issue has been regulated separately within the companies, by the parties concerned, each enterprise having 20 or more employees is obliged to set aside 37.5% of an average monthly salary in the corporate sector. Additional funding can be financed by parts of the profit the company has made. Simultaneously, the act specifies the types of expenditure from the funds (holidays, entertainment and education, sport, material and financial assistance and housing). In addition to the company social

benefit funds, employers can make financial contribution towards company housing, company canteens, the cost of commuting, company out-patient clinics, schools, crèches and company pension systems (see Fyszemberg, Szczepkowska 1994).

The situation on the market forced companies to lower their costs as much as possible, especially in the first period of transformation their financial situation was generally rather poor. At the same time competition did not allow to compensate for the high costs by increasing the prices. In such a situation enterprises would seek for cost reductions by limiting their social expenditure, although, as has been mentioned above, there were relevant legal provisions against this practice. Enterprises could limit their company social benefit funds in a collective agreement, with the agreement of trade union representatives. However, companies would first of all try to reduce expensive social infrastructure, such as company holiday centres, out-patient clinics, canteens, etc.

Consequently, companies have developed certain strategies in relation to social benefits, regarding particularly the level of the company social benefit fund, the use of social infrastructure and various types of expenditure from the funds. These strategies are determined by the different features of a company. The questionnaire has provided a rough picture of the current situation.

First of all, we can formulate a thesis that, at least in the group surveyed (i.e. with the exemption of the smallest and largest enterprises, which have experienced specific problems), there was no tendency that the companies have avoided to establish the social benefit funds, although, as has been mentioned above, there were certain circumstances which would have made it possible. Only 1.1% of the enterprises did not set up the funds, and only 3.4% established the funds at the level lower than the obligatory one. It is interesting that in 31.1% of the enterprises the funds exceeded the obligatory level. The other companies (64.4%) established their funds at the obligatory level as determined by the law. This proves that the employees were deeply aware of the company's obligation to provide social support for the staff and that the employers accepted this obligation. The answers to the question concerning employees' expectations regarding the range and scope of social benefits confirm our thesis. 80.6% of the respondents would like to maintain the current scope of benefits. Only 17.6% of the respondents would accept a reduction of the scope and a simultaneous raise in salary. Considering the fact that salaries are generally low in Polish enterprises, this attitude shows how highly workers regard company social benefits.

Consequently, employers did not attempt in any way to circumvent the relevant principles regulated by the state. This thesis is confirmed by the fact that almost 70% of the enterprises which answered the question (almost a half of the sample) tried to increase the nominal value of the fund, i.e. to protect its real value in the situation of high inflation.

*Table 4-1. Allocation of the companies social benefit funds in the period 1994 to 1997*

Type of expenditure	Enterprises (%) in which expenditure:				
	Increased	Did not change	Decreased	Did not occur in 1994 and 1997	Occurred in 1997 only
Employees' holidays	48.9	13.1	16.5	15.9	4.5
Holidays for employees' families and children	47.2	15.9	15.9	14.8	6.3
Entertainment	20.2	19.1	23.0	32.6	5.1
Education	6.2	7.3	8.5	76.3	1.1
Sport	16.3	9.0	13.5	56.2	5.1
Material assistance	38.6	18.2	9.1	28.4	5.7
Financial assistance	54.0	22.2	11.9	7.4	4.5
Housing	38.1	14.2	11.9	29.5	5.7
Other	11.8	10.1	2.8	73.0	22.0

Source: Own calculations.

The strategy was, however, implemented in different ways with regard to various services. Some benefits were protected by most of the companies, others were limited. Table 4-1. shows the types of expenditure from the companies social benefit funds. The figures demonstrate that particular attention was paid to maintaining, or even increasing, the real level of expenditure for various schemes protecting the staff from poverty (material assistance, cash benefits and housing). The number of companies which increased their relevant spending exceeds by far the number of units which decreased their spending in this area. This is understandable in the situation of a dramatic fall in the income of large groups of workers. However, it is rather unexpected that the level of spending to support holidays for employees' families and children was maintained. This was probably due to the force of tradition (in the period of central planning holidays for the staff were organised on a large scale). Moreover, since it was rather difficult to liquidate or rent the buildings (holiday centres), the companies tried to use the existing infrastructure to their own advantage.

After an analysis of the respondents' answers one can say that the way for enterprises to limit their spending on social benefits is to reduce and to find alternative uses for their infrastructure. In the period 1994 to 1997, as many as 64.4% of the respondents got rid of their infrastructure, only 1.7% invested in new infrastructure. Since this process had begun earlier, many of the other companies may have already reduced their infrastructure before (see

Wiktor 1993). This thesis is confirmed by the fact that most of the employers reduced the number of company flats (38.8%) and holiday centres (25.8%), i.e. the resources least attractive to potential buyers. Crèches, nursery schools, schools, health centres, canteens, entertainment and sport centres as well as company hotels were liquidated on a smaller scale. They had probably been sold or handed over earlier.

These resources were usually sold (41.5% of the respondents) or handed over to local authorities (30.3%). Holiday centres, company hotels, canteens and some company flats were usually sold, other resources were usually handed over free of charge (see Zarychta 1998). This shows the employers' determination to get rid of the social infrastructure in order to reduce the costs for the company.

When the enterprises decided to retain their social infrastructure in order to continue providing social services to their staff, they have introduced some changes regarding the availability of certain services (more than 1/4 of the respondents). Accordingly, 12% of the respondents introduced charges for their employees, 15.7% commercialised their infrastructure and opened it to other customers.

The above strategies applied by the enterprises were determined by a number of factors. These factors may include the form of ownership, profitability and union activity. A crucial element of a company's social strategy was its contribution towards the company social benefit funds. The level of contributions in different companies is presented in Table 4-2.

*Table 4-2. Obligation to contribute to the companies social funds and the form of ownership*

Form of ownership	Enterprises contributions according to the amount of the deductions (%)		
	Obligatory deduction	More than obligatory deduction	Less than obligatory deduction
State-owned enterprise	52.4	42.9	4.8
State Treasury stock company	62.5	33.3	4.2
Company with State Treasury share	70.0	23.3	6.7
Private company	92.0	8.0	0.0
Company created through liquidation of state-owned enterprises	47.6	38.1	14.3
Company belonging to National Investment Funds	65.5	31.0	3.4

Source: Own calculations.

The table shows that it was not typical for the employers to contribute less than obligatory deduction. However, the fact of contributing more than the obligatory deduction is clearly connected with the form of ownership. This practice is followed by more than 30% of the

traditional state-owned enterprises, the State Treasury stock companies and the companies belonging to the National Investment Funds, which at that time were not yet fully privatised. As far as the companies without the State Treasury share are concerned, the above is true for only 23.3% of them. In private companies such higher deductions for the company social benefit fund are made sporadically. Companies created through liquidation of state-owned enterprises often make deductions exceeding the obligatory amount (38%). This may be because of a strong position of the staff of these companies, a popular method of their privatisation being company leasing.

Considering the above, we can formulate a thesis that deductions exceeding the obligatory amount become less frequent as the control of a private owner grows. Higher deductions are more common in companies controlled by either the state or the staff, which might also be a sign of strong influence exerted by the employees upon the policy of their company.

The relation between a company’s profitability and the level of contribution towards the company social benefit fund has also been examined. The results are presented in Table 4-3.

*Table 4-3. Obligation to contribute to the companies social funds and profitability*

Profitability	Enterprises contributions according to the amount of the deductions (%)		
	Obligatory deduction	More than obligatory deduction	Less than obligatory deduction
High	61.5	35.9	2.6
Low	60.4	36.5	3.1
Deficit	75.6	14.6	9.8

Source: Own calculations.

Over 1/3 of the companies declaring a profit (described as either high or low since the respondents refused to supply any figures) were willing to make more than an obligatory deduction for the company social benefit fund. The level of profitability was of no particular consequence here. However, only 15% of the companies declaring a deficit assumed a similar attitude. It means that the activities discussed in this paper are determined not only by the pressure of the staff interested in the benefits, but also, to a certain degree, by a company’s financial situation.

Similarly, union activity had strong influence on the amount of a deduction for the company social benefit, which is illustrated in Table 4-4.

Table 4-4. Obligation to contribute to the companies social funds and union activity

Union activity (%)	Enterprises contributions according to the amount of the deductions (%)		
	Obligatory deduction	More than obligatory deduction	Less than obligatory deduction
Up to 25%	75.7	21.6	2.7
25 – 50	60.7	31.1	8.2
More than 50	62.3	35.1	2.6

Source: Own calculations.

As union representation increased so did the percentage of companies making more than an obligatory deduction for the company social fund. This shows that the pressure of the staff to increase social funds could be also effective.

The process to reduce the social infrastructure can also illustrate a company's social strategy. To begin with, we have examined the relation between the form of ownership and the course taken by the company.

Table 4-5. Reduction of social infrastructure and the form of ownership

Form of ownership	Enterprises (%)		
	Reducing infrastructure	Retaining infrastructure	Investing in infrastructure
State-owned enterprise	66.7	31.0	2.4
State Treasury stock company	83.4	16.6	0.0
Company with State Treasury share	83.3	13.3	3.3
Private company	32.0	64.0	4.0
Company created through liquidation of state-owned enterprise	33.3	66.6	0.0
Company belonging to National Investment Fund	79.3	20.7	0.0

Source: Own calculations.

The process of the reduction of a company's social infrastructure was predominantly influenced by the fact of possessing an extensive infrastructure and the need to reduce the costs. Hence, around 80% of the State Treasury stock companies, companies with the State Treasury share and companies belonging to the National Investment Funds liquidated their infrastructure. The reduction in state-owned enterprises was not so drastic as there was probably no pressure from the owner to reduce the costs and the position of the staff was strong. Small-scale reductions were made in private companies and companies created through liquidation of state-owned enterprises (through company leasing), for totally different reasons, though. In the companies leased the position of the employees as co-owners is very

strong. They most probably try to protect their company’s social infrastructure. Private companies, already formed as such, usually did not develop any social infrastructure yet.

The process of liquidation or retention of the infrastructure can also be influenced by the company’s profitability.

*Table 4-6. Reduction of social infrastructure and profitability*

Profitability	Enterprises (%)		
	Reducing infrastructure	Retaining infrastructure	Investing in infrastructure
High	45.0	52.5	2.5
Low	70.5	28.4	1.1
Deficit	68.3	29.3	2.4

Source: Own calculations.

The process to reduce social infrastructure is more intense in the companies making a low profit or showing a deficit than in the companies making a high profit. Thus, the process is strongly influenced by economic reasons.

The relation between the process of reduction of social infrastructures and union activity has also been examined. The results are presented in Table 4-7.

*Table 4-7. Reduction of social infrastructure and union activity*

Union activity (%)	Enterprises (%)		
	Reducing infrastructure	Retaining infrastructure	Investing in infrastructure
Up to 25	45.9	51.4	2.7
25 – 50	61.7	38.3	0.0
More than 50	74.0	23.4	2.6

Source: Own calculations.

The results obtained are seemingly paradoxical. The companies in which trade unions are most active seem to be the first to reduce their social infrastructure. However, this is due to the fact that unions are most active in large enterprises, which either belonged or still belong to the state sector. These companies are burdened with an extensive social infrastructure. Financial problems lead to a serious reduction of the infrastructure, despite the reluctance of the staff. These conclusions are in line with the conclusions drawn from the analysis of Table 4-5.

It is interesting that the variables used in the above analysis, which have illustrated the company’s social strategy so well, could not be applied to show how differently the companies managed their infrastructures (commercialisation, fees for services). The character

of the infrastructure and the demand for certain services, which may or may not be provided by a particular company regardless of its form of ownership or profitability, may have been decisive factors. They could either provide the company with an incentive to commercialise its infrastructure or discourage it from doing so.

Nevertheless, the above analysis of our questionnaires results have shown that the variables selected in order to explain certain phenomena are quite satisfactory. This is particularly true for the company's form of ownership. The process of privatisation of a company did not mean the termination of all social activity, however, state ownership did not secure it at all (see Estrin, Schaffer, Singh 1997). Furthermore, the process of privatisation in Poland was characterised by a gradual change of the form of ownership.<sup>15</sup> Thus, changes in the social sphere were gradual, too. Nevertheless, it can be said that the stronger the position of the staff and the weaker the position of the owner, the more socially orientated was the policy carried out by an enterprise. This was true about companies with a large state share, with strong union representation and employees influence, or in the case of company leasing. Private companies did not drastically limit their social schemes, although they did not promote these schemes further. Their policy might have been influenced by the fact that they were not left with a vast social infrastructure from the previous era. The extent of these infrastructures limited the decisions of the enterprise formerly owned by the state.

On the other hand, the questionnaire showed that economic considerations have influenced the decisions of all enterprises, regardlessly of their form of ownership. A company's policy was influenced by its profitability, although in this case the differences in between the companies were modest. Furthermore, the extent and conditions of the infrastructure determined the policy to a great degree. Finally, the results of the questionnaire show that employees attach great importance to company social schemes, regardless of the type of an enterprise, its financial situation, union activity within it, social structure and the level of wages.

It is not expected today that such social schemes will be further developed. However, the staff is hearily interested in the stability of this form of remuneration. Therefore, managers try to meet these expectations in order to avoid conflicts. The results of the questionnaire prove that the process in which company social benefits are limited, although it involves mainly

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<sup>15</sup> Gradual evolution of State Treasury stock companies into companies with varying State Treasury share, company leasing as an actual starting point for the process of privatisation, gradual privatisation of the National Investment Funds.

liquidation or considerable alterations, is controlled and gradual, rather than sudden and shocking.

## **5. Industrial Policy and Social Policy in Polish Enterprises**

Enterprises are following particular social policy patterns with respect to its staff. This policy, which depends on the factors discussed above, creates certain expenditure for the enterprises. On the other hand, an enterprises can be addressees of industrial policy, e.g. in the form of state aid of various sorts. Are government funds allocated to companies which implement active social policy or to companies which neglect their social responsibility towards the employees, i.e. is a company's policy a hidden form of subsidising social policy, or is it based upon other criteria? The questionnaire has offered some answers to the above question.

In order to explore certain links we have firstly considered certain forms of state aid, offered to at least 20% of the respondents (tax exemptions, soft loans, tax deferrals and social insurance contribution deferrals), and their influence on the allocation to a company's social fund as well as on the scale of liquidation of a company's social infrastructure. Thus, we have analysed the relationship between state aid and the companies social funds as well as the extent to which the companies social infrastructure was protected. However, it should be noticed that state aid is of two kinds. On the one hand, tax exemptions and soft loans should rather be directed to good, developing companies since these companies usually make investments. On the other hand such forms of aid as tax deferrals and social insurance contribution deferrals should be addressed mainly to weak indebted companies. The results of our analysis are shown in the tables below.

At first we have analysed the relationship between the allocation or the companies social funds and the tax exemptions. This is shown in Table 5-1. One can observe that the companies exempt from taxation (up to various amounts) were more likely to make a larger than obligatory allocation to their social funds than the companies which did not receive aid in this form. This may be due to the fact that aid in this form is usually directed to successful companies which have certain funds set aside for social benefits and are prepared to use these funds if pressed by the staff and advised by the management.

*Table 5-1. Obligation to contribute to the companies social funds and tax exemptions*

Tax exemptions	Enterprises contributions according to the amount of the deductions (%)		
	Obligatory deduction	More than obligatory deduction	Less than obligatory deduction
There were none	70.6	26.5	2.9
There were some	56.0	37.3	6.7

Source: Own calculations.

Similar connections, although to a smaller extent, can be observed with regard to soft loans. In this case 30.3% of the enterprises which did not receive aid in this form, and 33.3% of the enterprises which did, allocated to social benefits more than an obligatory sum. The situation is different as regards tax deferrals, which is shown in Table 5-2.

*Table 5-2. Obligation to contribute to the company social fund and tax deferrals*

Tax deferrals	Enterprises contributions according to the amount of the deductions (%)		
	Obligatory deduction	More than obligatory deduction	Less than obligatory deduction
There were none	61.5	35.6	3.0
There were some	73.2	17.1	9.8

Source: Own calculations.

In this case, if no aid was provided the companies were more likely to allocate to their social funds more than the amount established by law. This is probably due to the fact that these are usually unsuccessful companies, with no potential for expansion of their social infrastructure, that request tax deferrals. The same correlation can be observed between allocations to company social funds and social insurance contribution deferrals. 34.8% of the companies which did not receive state support in this form contributed to their social funds more than the amount established by law, while the same is true for only 17.6% of the companies whose payments towards social insurance were deferred. We can thus formulate the thesis that the support for companies with a potential for development, the state also supports their social policy as it helps improve their financial situation. However, supporting unsuccessful companies threatened by bankruptcy has also certain social advantages. This support does not mean helping expand the scope of benefits offered by an enterprise, which generally cannot afford to provide such benefits anyway. It is important to help these companies operate and, consequently, maintain the jobs. This is the social aspect of industrial policy in Poland regarding weak companies.

The above conclusions have been confirmed by a comparative analysis of the various forms of state aid mentioned above and the extent of the reduction of a company’s social infrastructure. However, it must be mentioned that not only a company’s financial situation or the preferences of the staff and the management have influence on the extent of infrastructure being liquidated. The size of the infrastructure built in the period of central planning is also of vital importance. Companies with large infrastructure are forced to liquidate it, regardless of all other circumstances.

Hence, the correlation between the liquidation of the infrastructure and state aid offered to developing companies is not so clear as it is in the case of the allocation to social benefits. 37.3% of the companies exempt from taxes, and 33.3% of the companies which paid taxes, did not liquidate their infrastructure. The difference in favour of economically stronger enterprises is not significant. With regard to soft loans the situation is quite opposite. 25% of the respondents who were granted soft loans, and 39.1% who did not obtain them, did not liquidate their social infrastructure. This confirms our thesis that other factors must have influenced the companies’ decisions. These factors may have been related to the size of the infrastructure established in the past. The connection between the scale of the liquidated infrastructure and state aid addressed to weak companies is more clear. The results are shown in the Tables 5-3.

*Table 5-3. Reduction of social infrastructure and tax deferrals*

Tax deferrals	Enterprises (%)		
	Reducing infrastructure	Retaining infrastructure	Investing in infrastructure
There were none	58.5	39.3	2.2
There were some	82.9	17.1	0.0

Source: Own calculations.

It is clear that the companies indebted to the state did not retain much of their infrastructure. The situation is similar with regard to social insurance contribution deferrals. 40.4% of the companies which had no debts did not liquidate their infrastructure, while only 17.1% of the indebted companies retained their infrastructure.

The analysis of the correlation between various forms of state aid and the scope of dismissals in an enterprise generally confirms the above conclusions. Employment protection can be treated as an essential element of social policy.

Here, the companies which have got tax exemptions were in a better economic situation, leading to a reduced lay off of their staff. This is shown in Table 5-4.

*Table 5-4. The scope of dismissals and tax exemptions*

Tax exemptions	Enterprises according to the scale of dismissals (%)			
	None	Less than 3% of the staff	3 – 10% of the staff	More than 10% of the staff
There were none	1.0	12.6	43.7	42.7
There were some	4.1	33.8	33.8	28.4

Source: Own calculations.

The enterprises which were not exempt from taxation were more likely to dismiss more than 10% of the staff than the companies which gained from tax exemptions. The situation was the same as far as soft loans (credits) were concerned. 38.6% of the respondents who did not have access to soft loans, and 31.1% which had, laid off more than 10% of the staff. Thus, successful companies were less likely to dismiss a lot of their staff, which may have also been caused by the support they received from the state.

In the companies which sought and received state support because of their serious economic problems, dismissals of workers was more frequent than in the companies which did not require such support. Table 5-5. below shows this connection. There were fewer collective dismissals in the companies which did not require tax deferrals. The same is true about social insurance contribution deferrals. Out of the companies which laid off more than 10% of their staff, 31.9% did not receive support in this form, 57.1% did. Thus, although they received state support, inefficient companies, indebted to the state and the Social Insurance Institution, would still have a larger scale of dismissals. However, the support they were offered helped them to survive, i.e. protected the remaining jobs.

*Table 5-5. The scope of dismissals and tax deferrals*

Tax deferrals	Enterprises according to the scale of dismissals (%)			
	None	Less than 3% of the staff	3 – 10% of the staff	More than 10% of the staff
There were none	2.9	23.5	38.2	35.3
There were some	0.0	15.0	42.5	42.5

Source: Own calculations.

To summarise up, we will draw attention to the variety of forms in which the state supported the corporate sector. As far as social considerations are concerned, state aid for developing enterprises has different functions. Since the companies are successful, mass dismissals are seldom and the willingness to provide benefits for the staff greater. Thus, as far as social

benefits are concerned, additional funds from the government can strengthen similar attitudes, helping reduce companies' financial limitations. However, in that case the state has no dilemma whether to support economic growth or protect employment capacity. The exemptions and deferrals mentioned above help companies develop but, at the same time, fulfil the employees' needs. Thus, they are not economically disadvantageous. Although the issue whether to provide support to particular companies fulfilling certain criteria set by the government or generally to lower taxes and leave the problem of allocation of funds within the market, remains unresolved.

With regard to tax exemptions and deferrals for economically weak enterprises, the situation is different. Here, despite public aid, the scope of social benefits is not enlarged and dismissals are more severe. However, the fact that these economic entities still exist means that, owing to government funds, they managed to keep some jobs. Thus, these are social subsidies, which, however, are contradictory to the economic objectives of the state. Such subsidies support inefficient production and cause a unreasonable allocation of funds. Therefore, a decision must be made whether it is better to implement short-term social aims, disregarding economic aims, or not. Long-term subsidising of inefficient companies and imposing higher taxes on strong companies will lead to a slow down of the rate of the GNP growth and will eventually have negative effects, also for the social sphere.

At the beginning of the transformation process the policy of protecting enterprises from closing down was sensible. The shock as consequence of the change to market mechanisms and international competition has caused serious problems to a number of companies which were sustainable in the long-term. In the period examined (1994 to 1997) new economic rules were already to implemented and the economy was developing. Thus, as far as state aid is concerned, the government should have applied economic criteria more often. The questionnaire shows, however, that the support provided to economically weak companies was too vast. The dominations of short-term social aims may have lead to slow down the GNP growth in the future.

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