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Remuneration as the Instrument for Shaping the Social Potential of Enterprises

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**REMUNERATION AS THE INSTRUMENT
FOR SHAPING THE SOCIAL POTENTIAL
OF ENTERPRISES**

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Key words: wages, remuneration policy, remuneration instruments, social potential.

Abstract

Finding the answer to the question whether and to what extent wages are used for shaping the social potential in large production enterprises was the basic goal of the presented studies.

The studies were conducted by means of the questionnaire-based method. They encompassed large industrial enterprises (employing more than 250 employees) situated in the area of Warmińsko-Mazurskie voivodship. Research material was obtained from 45 enterprises.

Generally, the results of the studies conducted indicate that the enterprises covered conducted expansive remuneration policies focused on high effectiveness. Consequently to the priorities they try building remuneration models and select remuneration tools. The appropriate setting of the directions for the implemented remuneration strategy in combination with organizational strategy is accompanied in many companies by clear weakness in the instrumental aspect. Wages are still underappreciated as tools for development of the social potential of the organization and remuneration policies of enterprises are subjected mainly to achievement of short-term goals.

**WYNAGRODZENIA JAKO INSTRUMENT KSZTAŁTOWANIA POTENCJAŁU
SPOŁECZNEGO PRZEDSIĘBIORSTW**

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Słowa kluczowe: wynagrodzenia, polityka wynagrodzeń, instrumenty płacowe, potencjał społeczny.

Abstract

Podstawowym celem prezentowanych badań było znalezienie odpowiedzi na pytanie: czy i w jakim stopniu wynagrodzenia są wykorzystywane w kształtowaniu potencjału społecznego w dużych przedsiębiorstwach produkcyjnych.

Badania przeprowadzono metodą ankietową. Objęto nimi duże (zatrudniające ponad 250 pracowników) przedsiębiorstwa przemysłowe zlokalizowane na terenie województwa warmińsko-mazurskiego. Uzyskano materiał badawczy z 45 przedsiębiorstw.

Wyniki przeprowadzonych badań wskazują, że objęte badaniem przedsiębiorstwa prowadzą ekspansywną, nastawioną na wysoką efektywność politykę wynagrodzeń. Konsekwentnie do priorytetów starają się budować modele kształtowania płac i odbierać narzędzia płacowe. Właściwemu wytyczaniu kierunków realizowanej strategii płacowej w powiązaniu ze strategią organizacji w wielu firmach towarzyszy jednak wyraźna słabość w sferze instrumentalnej. Wciąż nie docenia się wynagrodzeń jako narzędzia kształtowania potencjału społecznego organizacji, a polityka płacowa w przedsiębiorstwach jest podporządkowana przede wszystkim realizacji celów krótkookresowych.

Introduction

Wages, as an important motivation instrument, play an important role in social potential development of organizations understood as the total of characteristics and properties of individual employees (that encompass the elements of widely understood competences such as knowledge, skills, motivation, attitudes and behaviors), determining their current and future ability to attain the organizational goals. Appropriate shaping of systemic solutions in the area of remuneration and combining the remuneration policy with the performance of the strategic goals of the company are of major importance in that aspect.

Remuneration, representing the compensation, the award for the work performed fulfils the motivating function because it represents an instrument for formation of attitudes and behaviors favorable to the organization. The remuneration for work, and in particular its internal structure, forms and relations of wages should influence the employees stimulating their activity, development and taking difficult and responsible tasks (STACHOWSKA 2007, pp. 61–62). The motivational function of wages manifests in the fact that their level and diversity stimulate people to take jobs and assume specific organizational roles, to work effectively and upgrade their qualifications as well as to assume the attitudes and behaviors expected by the employer (OLEKSYN 2001, p. 193).

In many companies it is believed that wages determined by the situation, based on links to the effects, competences or skills of the employees represent the best method of motivation (ARMSTRONG 2009, s. 282). Finding the answer to two fundamental questions: 1) on what base we want to assess employees and their work, and 2) for what we are ready to pay them, is important in the process of developing such remuneration systems.

To achieve the favorable motivational effect of remuneration the enterprise must, as a consequence, assure the:

- appropriate system of assessment of the employees,
- appropriate awards for effective work compatible to the company potential and expectations of the system participants,

Implementation of the motivational, enterprise interests performance focused, remuneration system also requires (KARASZEWSKA 2003, pp. 68–69):

- individualized approach in the process of designing and selecting remuneration tools,
- coherence of the tools applied,
- defining real standards of behaviors or effectiveness levels representing the condition for obtaining benefits by the employee,
- sending appropriate and relatively fast feedback serving establishment/elimination of behaviors positive/negative from the perspective of the employer,
- relative stability of the developed rules coupled with flexible reactions to the signals from the environment.

The fact that Poland functions within the European Union structures next to many highly developed countries puts the enterprises operating in the Polish market in the position that necessitates deep revaluations in the sphere of wages that would allow using that important instrument of motivation as a strategic strength for competitiveness. This, of course, requires noticing the important role that wages can play in development of the social potential of the organization.

Finding the answer to the question of whether and to what extent wages are used in development of the social potential in large production enterprises was the basic aim of the presented studies.

The following research problems were considered during the studies:

- How the main objective of remuneration policy is determined in the enterprises encompassed by the study?
- What factors influence the structuring of wages in the enterprises covered?
- Based on what criteria the work effectiveness is assessed and what are its results?
- What remuneration instruments serving social potential development are applied in the enterprises covered and what is the scope of their application?
- How far the choice of remuneration policy instrument represents a conscious action focused on attainment of the intended goals?

Methodology of studies

The studies were conducted by means of the questionnaire-based method. The population encompassed by the study consisted of all large (employing more than 250 employees) production enterprises situated in Warmińsko-

-Mazurskie voivodship (50 companies). The questionnaire was addressed to the enterprises indicating the management of human resources management or management staff responsible for decisions concerning the wages. As the response, 45 correctly completed questionnaires were received (returns level at 90%). The study was conducted in 2009.

Private commercial companies (joint stock and limited liability companies) representing 68,9% of the population covered, of which 38,7% were companies with a share of the foreign capital dominated among the enterprises encompassed by the study. The population included also 4 cooperatives, 1 State-owned enterprise, 3 companies of the State Treasury and 6 enterprises of individuals (Tab. 1).

In general, the foreign capital interest was recorded in 26,7% of the population covered. Six of the companies involved were Warsaw Stock Exchange listed companies.

Table 1

Enterprises covered according to the form of ownership

Form of ownership	Number	Percent of enterprises covered
State-owned enterprise	1	2.2
Company of the State Treasury	3	6.7
Private commercial company without foreign interest	19	42.2
Private commercial company with foreign interest:	up to 50%	1
	over 50%	3
	100%	8
Cooperative	4	8.9
Enterprise of an individual	6	13.3
Total:	45	100.0

Source: own studies.

Enterprises with year average employment ranging from 250 to 499 people dominated among the entities covered by the study (60% of the population). The remaining companies employed 500 and more employees (including 8 with employment exceeding 1000 people).

Food industry was most numerously represented in the studied sample (33,3% of the population) followed by timber and furniture industries (13,3% of the population each) and other industries.

The vast majority of the enterprises covered (91,1%) operated in the market longer than 10 years. The remaining ones had a shorter history of operation.

Considering the development stage represented by the enterprises covered, the majority of them (77,8%) were mature enterprises (with established market position) while the others were the developing enterprises (in the phase of growth).

Results of studies

In response to the question concerning the general strategy implemented by enterprises covered, 31 responses (68,9% of population) indicated the strategy of development (increase in the market share) while the remaining 14 responses indicated the strategy of stabilization (maintaining and defending the market position).

Among the most important goals of business activities, 68,9% of the covered entities indicated care for customer satisfaction. Other important goals were: increase of sales and care for quality of goods and services (66,7% of responses each) followed by maximization of profit (51,1%), care for employee satisfaction (40,0%) and increase of capital productivity (24,4% of responses). In the stock exchange listed companies covered by the study the package of goals indicated included also care for satisfaction of the shareholders.

The fundamental objectives of the enterprises covered in the aspect of human resources management were employing and retaining in the organization of the staff with the highest qualifications and skills (such answers was given by 57,8% of the respondents each). For 46,7% of the entities covered by the study the fundamental objectives of the company human resources management indicated included continuous development of the employees, in 33,3% attention was brought to development of motivational remuneration system and in 26,7% them management stimulating initiative, creativity and autonomy was indicated.

Retaining employees in the organization and stimulating higher effectiveness as goals of the remuneration policies are implemented in over 90% of the companies covered and for ca. 47% of the enterprises that goal was a priority. Attracting appropriate employees to join the organization was another important goal of remuneration policy and more than 30% of the enterprises indicated it as the fundamental goal. Further, the respondents indicated the role of wages in integrating employees with the company and stimulating them for continuous development (over 20% of the companies considered those goals as priorities). To a lesser extent, the remuneration policy in the enterprises covered was also focused on achievement of the goal of development of the required relations at work through the remuneration system (Tab. 2).

Table 2

Importance coefficients for individual goals of remuneration policies in enterprises covered considering also the form of ownership (weighted average)*

Remuneration policy goals	Form of ownership						Total
	State-owned enterprise	Company of the State Treasury	Private commercial company without foreign interest	Private commercial company with foreign interest	Cooperative	Enterprise of an individual	
Attracting appropriate employees to work in the organization	2.0	0.7	1.2	1.3	1.0	1.5	1.2
Retaining employees in the organization	2.0	1.3	1.4	1.4	1.3	1.7	1.4
Stimulating employees to achieve good work effects	2.0	0.7	1.4	1.5	1.5	1.5	1.4
Stimulating employees for continuous education (employee development)	1.0	1.0	1.0	1.2	1.0	1.0	1.1
Integration of employees with the company	1.0	1.7	0.8	1.2	1.0	1.7	1.1
Development of the required relations at work	2.0	0.3	0.9	0.7	0.5	1.3	0.9

* the goals were allocated the following weights: 0 – the enterprise does not implement that goal; 1 – the goal is implemented but it is not a fundamental goal; 2 – this is the fundamental goal of remuneration policy

Source: own studies.

Skills of the employees proved to be the most important factor for determining the wages in the enterprises covered (Tab. 3). In more than 93% of the enterprises that factor influences the wages while 66,7% of the entities consider that factor a priority. Qualifications and widely understood competences also proved important factors (in ca. 50% of the companies they were the fundamental factors influencing wages). Important role in the design of the remuneration system is also played by the effects of work considered the priority in more than 64% of the entities covered and their role is relatively the highest in the companies with interest of foreign capital

The financial situation of the company is considered in designing the remuneration system in the total of around 89% of enterprises. Also elements such as the importance of a given group of employees for creating the success

Table 3
Importance coefficients of the individual factors influencing the remuneration systems in enterprises studied considering the form of ownership (weighted average)*

Factors determining wages	Form of ownership						Total
	State-owned enterprise	Company of the State Treasury	Private commercial company without foreign interest	Private commercial company with foreign interest	Cooperative	Enterprise of an individual	
Qualifications	2.0	1.3	1.4	1.5	1.3	1.2	1.4
Skills	2.0	1.7	1.6	1.6	1.3	1.8	1.6
Widely understood competences (knowledge, skills, motivation, attitudes and behaviors of employees in the work process)	2.0	1.3	1.5	1.5	0.5	1.5	1.4
Employment duration	0.0	0.3	0.6	1.0	0.8	1.0	0.8
Effects of work	2.0	1.3	1.4	1.7	1.5	1.5	1.5
Importance of a given group of employees for creating the success of the company	2.0	1.3	1.1	1.1	0.8	1.2	1.1
Financial situation of the company	1.0	1.7	1.2	1.2	1.3	1.0	1.2
Situation in the labor market	1.0	1.3	0.7	0.9	0.3	1.2	0.8
Costs of retaining	1.0	0.7	0.9	0.8	1.0	1.3	1.0
Level of wages in competitor companies	0.0	0.3	0.6	0.5	0.3	0.5	0.5
Level of wages in companies included in the stock exchange index	0.0	0.0	0.0	0.3	0.0	0.0	0.1
System of values and expectations of employees	1.0	0.7	0.6	0.7	0.5	0.7	0.6

* the factors were allocated the following weights: 0 – the factor does not influence wages; 1 – the factor influences wages but it is not basic in determining them; 2 – it is the basic factor for determining wages in the enterprise

Source: own studies.

of the organization, costs of retaining the employees and labor market situation (factors influencing wages in over 70% of respondent companies) proved important factors determining the remuneration systems.

More than a half of the entities covered by the study takes into account the levels of employee wages in competitive companies in the process of formulating the remuneration system although that factor is not treated as a priority.

In 60% of the enterprises covered the values and expectations of the employees were considered in designing the remuneration system although in one case only that factor was indicated as having key importance.

The results show the situation in which the duration of employment loses importance as the basic factor influencing the wages although it is still considered in designing the remuneration systems in over 60% of the enterprises covered.

Considering the fact that wage for results (effects of work) is the derivative of the intent to stimulate higher achievements through wages it can be concluded that the fundamental determinant for setting wages in the population studied is consistent with the declared fundamental goal of the remuneration policy. It could seem surprising, however, that stimulating employees for development was ranked only third in the hierarchy of importance of the goals for the remuneration policies implemented by the companies covered in the situation where attainment of that goal is supported by the model of wage for competences (competences are clearly ranked high among the listed factors influencing remuneration structures) declared by the enterprises.

In the majority of enterprises covered by the study (over 62%), the average gross wage ranged from PLN 2000 to PLN 3000. The majority of respondents (over 70%) also declared the level of wages in the enterprise as similar to the competitor enterprises in the local labor market.

Application of market reviews of wages is declared by ca. 49% of entities covered. The information from those reviews is used mainly in determining the wages of employees employed in key positions or positions for which obtaining complete staffing is particularly difficult. The market competitors as assumed as benchmark in designing the levels and relations of wages in majority of the enterprises covered.

Valuation of work was conducted in more than 53% of the enterprises covered and in the majority of such cases it was the base for building the systems of qualification tariffs.

The system of tariffs (qualification tariffs system and remuneration tables) were used in designing the wages by 60% of the enterprises out of which more than 55% apply the designs of broadbanding while the others apply the traditional systems of tariffs with a large number of remuneration categories and narrow bands of wages.

Among the factors influencing basic wage increase within the remuneration band the enterprises indicated work effects (66,7% of indications) and employee competences (57,8%) most frequently. In 31% of enterprises covered the labor market situation and duration of employment are considered while determining the wage rate. More than 33% of the respondents indicated that increases of the basic wage in the enterprise are of discretionary nature.

Evaluation of the effect of enterprise activities as a whole and evaluation of group and individual work effects are conducted in ca. 90% of the enterprises covered. Assessment of individual results is conducted in more than 75% of the enterprises.

The following financial measures were most frequently mentioned as those applied in evaluation of enterprise activities: ROS (72% of enterprises conducting the evaluation of the effects of activities at the organization level), financial liquidity measures (56%), profit per employee (ca. 36%), profit per work cost unit (31%), ROA, ROE (over 28%), ROI (over 10%). Additionally, the stock exchange listed companies mentioned indicators such as: EBIDTA, EVA, EPS and CFROI.

The financial measures of organization operation evaluation are linked to remuneration in 43,6% of enterprises conducting such evaluation. This applies most frequently to the highest level of the management.

In the majority of enterprises covered (over 86%) the overall enterprise operations effects translate most frequently into the variable part of remuneration in the form of bonuses. They influence the basic wages in ca. 29% of the enterprises and in 6,7% they are reflected in the bonuses from enterprise profit.

Tangible results (volume of sales, volume of production, etc.) are the basic criteria on the base of which the assessment of group/team effects is performed in 81,4% of enterprises conducting such assessment. For ca. 33% of such enterprises the degree of performance of tasks plays the role of such a criterion while in 16,3% observation of norms and standards plays the role. The results of that assessment form the base for designing the bonuses (79%), to a lesser extent they influence the awards (35%) and wage increases (over 18%).

In 50% of enterprises declaring performance of the evaluation of the individual effects of work the formalized evaluation system exists and in 82% of such enterprises it covers all the employees. The most frequently applied criteria are: the results of work (in 79,4% of enterprises conducting individual evaluation), level of performance of goals (in 44,1%) and skills (in 41,2%) followed by competences, qualifications of employees and, to a lesser extent, personality characteristics and behavioral criteria. The comprehensive evaluation system is applied by 23,5% of enterprises. The results of the individual evaluation in most cases are: increase or decrease of the bonus (85,3%),

promotion (41,2%), less frequently – complement or reprimand (29,4%), increase or decrease of the basic wage (26,5%) and degradation (14,7%).

Ownership/financial participation as the form of deferred income is used only in 13,3% of the population covered (6 enterprises) of which in three cases it has the form of individual participation, in one group participation and in two cases enterprise participation.

As concerns the higher-ranking managers the enterprises apply ordinary and conditional shares as well as options for shares and deferred participation in profit. The other employees are offered ordinary shares and deferred participation in profit. In 50% of enterprises applying financial participation it covers only those employees who achieve higher than average effects in their work and in the others all the employees indifferent of their individual effects of work.

Other forms of the deferred incomes are applied in the enterprises covered to a minor extent. The saving systems are applied in 15,6% of enterprises only while additional insurance (such as group life insurance, employee pension funds, medical insurance and insurance policies) were offered to their employees by 24,4% of the enterprises.

The studies conducted build the picture of enterprises applying a wide range of auxiliary benefits in remunerating their employees. The most popular auxiliary benefits include a mobile telephone (over 88,9% of indications) and benefits of social type (73,3%). The enterprises also offer a wide range of goods coupons, low interest loans and training-recreation trips (46,7% of indications each). They also subsidize or cover the costs of holidays (48,9%). More than 62% offer their employees the possibility of using company car and ca. 49% a computer for work at home.

In case of 44% of the enterprises covered the wide range of auxiliary benefits included financing of various types of training activities for employees and subscription of specialist publications aiming at upgrading their level of knowledge.

Further ranking benefits included the possibility of using the parking lot (40% of responses), discounts in purchasing company products and clothing benefits (33,3% responses each), access to sports and recreation facilities and medical care (28,9% each) as well as a credit card (20%). The least popular benefits included housing payments and legal/tax advisory services (15,6% of responses each), purchase or rental of a flat (8,9%) and free rail travel or subsidies to tickets as well as additional days of paid leave (1 response each).

The most extensive spectrum of non-remuneration benefits was offered to the higher rank management staff. There are also benefits the extent of application of which increases while going down the ranks in the hierarchy and those benefits include those of rather traditional type such as coupons for

purchase of goods, subsidies to holidays or payment of their costs or social benefits.

The possibility of choosing the components of total remuneration within a specified limit was indicated by 6.7% of the enterprises covered (3 enterprises) only, and in all those cases the cafeteria applied to the highest level of management while the choices covered the auxiliary benefits only.

Conclusion

The enterprises covered by the study generally considered retaining of employees in the organization and stimulating them for higher effectiveness as the fundamental goals of the implemented remuneration policy. Those goals correspond with the priorities of general strategy (increasing the market share or retaining and defending the current market position through increased sales while maintaining care for customer satisfaction and quality of goods and services) and the basic goals in human resources management (obtaining and retaining of staff with the highest qualifications and skills).

It can be concluded that the remuneration development models (wage for result and for competences) assumed by the enterprises covered are consistent with the declared goals of the remuneration policy. According to those models the enterprises covered try selecting also the remuneration tools.

Formal evaluation of the individual results of work using first of all the criteria of results and competences is applied in them commonly, which seems to reflect the declared models of remuneration. In the vast majority of the enterprises covered the evaluation of group and team effects of work is also conducted based first of all on measurable results, which corresponds with performance of the basic operational goals. The results of conducted evaluations, at both the individual and group/team level are most frequently reflected in the variable part of remuneration in the form of bonuses.

In the enterprises covered assessment of the entire enterprise operational effects is commonly performed also by applying a whole range of financial measures. In most cases those measures, however, are the traditional ones such as profit per one employee, indicators of profitability and financial liquidity the basic weakness of which is their short-term nature (they do not reflect enterprise performance in a longer perspective).

To a low extent (in most cases in relation to the highest ranking management) the financial measures serving assessment of enterprise operation are linked to the remuneration although in the majority of entities covered by the study the financial standing of the enterprise is an important factors for development of the remuneration system.

The majority of the enterprises covered apply the tariff system for development of the remuneration system. That system of tariffs was created on the base of the results of work valuation and in more than a half of the cases the concept of the tariffs system with a small number of categories and broadbanding are applied offering higher flexibility of wages and the possibility of conditioning wage increases on results and competences of employees that are indicated as the major factors influencing the increase of basic salary within employment category in the enterprises covered.

The enterprises covered make little use of ownership/financial participation as a form of deferred income. Considering the fact that retaining employees in the organization represents a very important goal of remuneration policy in the majority of the enterprises covered, wider application of stimuli of that type would contribute to better achievement of the specified goal undoubtedly by tying the employees to the enterprise. The scope of applying other forms of deferred incomes (saving systems, additional insurance systems) are also few, which may mean that in the enterprises covered the remuneration policy is subjected mainly to attainment of short-term goals.

The organizations studied offer their employees a wide range of different auxiliary benefits as complements to the traditional remuneration. Very frequently the possibility of using the company car, mobile telephone or computer for private purposes are mentioned among those benefits (mainly in case of management staff and independent specialists). Enterprises covered by the study quite commonly offer various forms of education to their employees (if we remember that stimulating qualifications upgrading represents an important goal of remuneration policy the above indicates that the goals are coherent with the tools). The dominating forms of benefits (social benefits, goods coupons, subsidies to holidays or coverage of their costs, loans originated by the enterprise, etc.) however, seem to indicate that they are of rather traditional character stemming from the former system.

Although the choice of the selected forms of benefits in many of the organizations covered seems to represent a conscious and purposeful activity targeted at attainment of the determined strategy of remuneration (so it represents the design close to the idea of package remuneration) the possibility of choosing the components of total remuneration within a specified limit was just marginally mentioned in the covered enterprises. As shown, cafeteria type remuneration widely used in highly developed countries is practically not used at the enterprises covered by the study.

Generally, the results of the conducted studies indicate that the enterprises covered conduct expansive, high effectiveness focused remuneration policy. Consequently to the priorities they attempt at building remuneration models and selecting remuneration tools. In many enterprises the appropriate deter-

mination of the directions for the implemented remuneration strategy in combination with the organization strategy is accompanied still by evident weakness in the instrumental field. It seems that the realities of Polish economy do not press them to implement on wide scale the more modern and effective solutions. Still, the remuneration as the tool for shaping the social potential of the organization is underappreciated and the remuneration policies of enterprises are subject, first of all, to implementation of short-term goals.

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