Compensation Management in Poland*

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The paper looks at different aspects of compensation management in Poland-based corporations. It identifies geography, ownership and industry as the most important factors for wage differentiation within the Polish labor market. Another essential finding is that the companies primarily use specific „Polish" methods of job evaluation for determining the base salary of their employees and that there are still certain methodological problems in this area of compensation management. Polish corporations also take a more and more systematic approach in the area of performance appraisal and variable pay as well as in the field of incentives management. Finally, the issue of social insurance contributions is covered.

Der Beitrag befasst sich mit verschiedenen Aspekten der Entgeltgestaltung in polnischen Unternehmen. Geographischer Standort, Eigentumsform und Branchenzugehörigkeit werden als die wichtigsten Faktoren der Entgelt-differenzierung identifiziert. Weiterhin wird deutlich, dass die Unternehmen zur Bestimmung des Basisgehalts in erster Linie spezifische polnische Methoden der Arbeitsbewertung verwenden und dass es dabei teilweise noch erhebliche methodische Probleme gibt. Polnische Unternehmen gehen in Bereichen wie Leistungsbewertung, variabler Entgeltgestaltung und Incentives Management zunehmend systematisch vor. Abschließend geht der Beitrag auf das Thema Sozialabgaben ein.

Key words: compensation management, job evaluation, performance appraisal, IT market, IT sektor

* Manuscript received: 15.05.2002, accepted: 20.11.2002.

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Introduction

This article deals with the topic of compensation management in Polish companies. It looks at different factors relevant for the area of compensation management and how corporations deal with them in order to reach their relevant goals. The different levels of compensation paid in the Polish labour market are analysed and the influence of factors such as geography, industry and ownership is examined. The topic of job evaluation, i.e. how Polish companies go about determining the base salary of their employees, is also looked at. Finally, the Polish practice of performance related pay and performance appraisal is dealt with as well as the most widely used benefits and incentives and the topic of social insurance contributions.

Pay differences and the general level of compensation in the Polish labour market

Polish nominal wages have risen very considerably during the last ten years. At the same time, however, inflation was very high, which resulted in a comparatively moderate increase of real wages of about 25% between 1992 and 2000.

Table 1. Indices of nominal wages and salaries, prices of consumer goods and services and real wages and salaries

	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**		
	Previous year = 100							1992 =100	1995 =100
Average monthly gross nominal wages and salaries	134.5	131.6	126.5	121.9	115.7	112.5	111.1	532.1	223.0
Prices of consumer goods and services	132.3	128.0	119.9	115.1	112.0	107.4	110.0	418.2	182.6
Average monthly gross real wages and salaries	101.7	102.8	105.5	105.9	103.3	104.7	101.0	127.2	122.1

Source: Central Statistical Office 2001, 165

Generally, it can be said that there is now greater differentiation with regard to the salaries paid for different kinds of jobs and to different groups of the work force than there was a decade ago. There is now a much closer link between remuneration and the level of qualification required for a given job. The level of differentiation concerning jobs typically held by men and women as well as between different industries has recently remained constant. At the same time, salaries and wages have been growing faster in companies owned by the state than in privately owned corporations (Wolynka 2001). Another important factor for the level of compensation in Poland is the geographical location of a company. Within the same industry, the average remuneration paid for a certain

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job category can vary very considerably from region to region. The highest salaries are paid in the Warsaw region (that is in the *voiwodship* of Mazowieckie). In some cases, the average amount paid for a specific position is even 90 or 100% above that of some other region. Partly this is due to the fact that the headquarters of large foreign domestic and foreign corporations are situated in this region (F.A.Z.-Institut 1997, 25). In general, the second highest salaries are paid in the region of Silesia (i.e. the *voiwodship* of Slaskie).

Table 2. Average monthly gross wages and salaries in the Polish regions and selected sectors in 2000 in PLN

Voiwodship	Total	Industry	Manufacturing	Trade and repair	Hotels and restaurants	Transport, storage, communi-cation	Financial intermediation
Poland	1894	1942	1757	1590	1301	2144	3258
Dolnoslaskie	1811	1997	1660	1405	1283	2031	2612
Kujawsko-pomorskie	1669	1693	1649	1306	1091	1916	2514
Lubelskie	1679	1695	1558	1272	1139	1938	2580
Lubuskie	1670	1623	1566	1294	1070	1904	2306
Lodzkie	1669	1664	1457	1355	1016	1975	2640
Malopolskie	1744	1824	1750	1416	1145	1935	3126
Mazowieckie	2470	2291	2219	2289	1861	2876	4735
Opolskie	1732	1813	1730	1342	976	1902	2622
Podkarpackie	1639	1694	1648	1230	1017	1830	2538
Podlaskie	1676	1629	1560	1335	1132	1958	2554
Pomorskie	1826	1862	1820	1451	1083	2155	2698
Slaskie	1954	2304	1775	1439	1060	1965	2887
Swietokrzyskie	1718	1856	1732	1287	1014	1880	2414
Warminsko-mazurskie	1671	1703	1660	1275	1228	1946	2299
Wielkopolskie	1772	1767	1679	1507	1104	2007	2797
Zachodno-pomorskie	1741	1808	1722	1342	1093	2107	2540

Source: Central Statistical Office 2002a, 112f.

The level of compensation also varies considerably between the different parts of the economy. Employers in sectors such as mining, electricity, gas and water supply as well as finance pay considerably above the national average of 2047 PLN (for the third quarter of 2001), whereas the salaries in other areas like health and social work lie considerably below the average.

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Table 3. Average monthly gross wages and salaries in selected sectors in the third quarter of 2001 in PLN

Total	2047
Agriculture, hunting and forestry	1990
Industry (Total)	2190
Mining and quarrying	3217
Manufacturing	2024
Electricity, gas and water supply	2748
Construction	2086
Trade and repair	2088
Hotels and restaurants	1651
Transport, storage and communication	2537
Financial intermediation	3678
Real estate, renting and business activities	2326
Public administration and defence; compulsory social security	2473
Education	1899
Health and social work	1676

Source: Central Statistical Office 2002b, 51

Within some parts of the economy such as manufacturing or trade, there are further considerable variations between different sub-segments of the labour market, whereas other areas are relatively homogeneous with regard to the average salaries paid. In manufacturing salaries are two times as high in some segments (e.g. tobacco) as in some others (e.g. wood, textiles). In the wholesale trade, salaries are considerable higher than in retail trade and repair, with average salaries of 2463 PLN and 1658 PLN, respectively.

Table 4. Average monthly gross wages and salaries in selected sub-sectors in January 2002 in PLN

Total	2188
Manufacturing (Total)	*2004*
Manufacturing of food products and beverages	1932
Manufacture of tobacco products	3789
Manufacture of textiles	1547
Manufacture of wood and wood, straw and wicker products	1540
Manufacture of pulp and paper	2412
Manufacture of coke, refined petroleum products	3527
Manufacture of chemicals and chemical products	2901

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Manufacture of rubber and plastic products	2015
Manufacture of metal products	1955
Manufacture of machinery equipment	2038
Manufacture of motor vehicles, trailers and semi-trailers	2135
Trade and repair (Total)	*2104*
Wholesale and commission trade	2463
Retail trade, repair of personal and household goods	1658
Transport, storage and communication (Total)	*2318*
Land and pipeline transport	2057
Water transport	1398
Post and telecommunications	2556

Source: Central Statistical Office 2002b, 51ff.

Ownership is another important factor explaining variations in remuneration. In 2000, an average salary of 2239 PLN was paid in companies owned directly by the state, whereas companies owned by local self-government entities only paid 1778 PLN and thus lay slightly above the average in the private sector. The lowest salaries were obtained by the employees of Polish private companies, whereas foreign owned corporations paid by far the highest salaries.

Table 5. Average monthly gross wages and salaries by ownership sectors in 2000 in PLN

Total	1894
Public sector	2066
State ownership	2239
Local self-government entities ownership	1778
Private sector	1760
Private domestic ownership	1520
Co-operatives	1554
Foreign ownership	2729

Source: Central Statistical Office 2001, 164

The pay gap between Poland and, for instance, the members of the European Union (EU) is still large. Polish middle managers or specialists for instance are still at only 25-30% of the salaries of their counterparts in „Western" Europe. The generally much lower pay level becomes even more noticeable by the fact that the country borders on Germany, one of the countries of the so-called „high-pay zone"„ within Western Europe. The salaries of manual workers in Poland – as in the whole CEE region – are only a fraction of those in the EU, with direct comparison becoming all the more difficult when productivity differences are taken into consideration. At the same time, at the top of the structure, general

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managers' and senior managers' remuneration are reaching the levels of EU markets such as Portugal where pay levels are lower. When compared to the neighbouring high-paying EU countries, Polish salaries in this area are at 50%; this gap reduces when the pay levels are adjusted for purchasing power.

It is currently not easy to obtain detailed and reliable information on management and specialist compensation in the Polish job market. The most appropriate (but also most expensive) way for a firm to get to know the relevant pay levels is to use data provided by one of the major human resources consultancies. Another source of information is the salary surveys published from time to time in certain journals and newspapers, giving at least some indication of the pay levels in specific parts of the market.

Table 6. Monthly salaries in Polish companies according to different positions in 2001 in PLN

Position	**Minimum**	**Average**	**Maximum**
IT companies			
Sales director	8100	14583	23000
Software engineer	3096	4443	6279
Customer service specialist	2200	3525	4850
Manufacturing companies			
Managing director	4800	11454	22500
Secretary	1340	2314	4051
Specialist (Finance)	1900	3426	5080
Specialist (Quality)	1050	3781	7300
Department head logistics	3301	5911	8743
International companies			
Department head production	4624	8009	14670
Sales representative	1935	3418	5342
Department head accounting	4146	5811	9680
Department head human resources	6524	7346	8000
Large companies			
Financial director	6500	11624	15700
Accounting clerk	940	2275	3994
Secretary	1340	2348	4051
Specialist (purchasing)	1070	3503	4437
Department head human resources	1400	5619	8892

Source: Wolynka 2001

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Job evaluation in Polish companies

For most employees the base salary still accounts by far for the largest proportion of their remuneration, even though variable elements nowadays also play an increasingly important role. Determining the base salary for each job within the organisation is one of the most important issues within the whole area of compensation management: the value of a job with regard to its specific contribution to the overall success of the corporation needs to be assessed. The specific discipline of human resource management dealing with this process is generally referred to as job evaluation.

Generally, four types of job evaluation methods can be distinguished: ranking, classification, point method and factor comparison method (Kanungo/Mendonca 1992, 247). Ranking and classification are also called non-analytical methods (each job is evaluated as a whole), whereas point method and factor comparison method are referred to as analytical methods of job evaluation (each job is evaluated using a specific set of compensatable factors) (Hopfenbeck 1989, 305). At the same time, the ranking and comparison methods have in common that the value of the given jobs is quantified by establishing an internal order between them (most demanding, less demanding, least demanding job), whereas both in the classification and point methods, each job is evaluated independently of the remaining jobs.

Figure 1. Groups of job evaluation methods

		General approach	
		Non-analytical	***Analytical***
Approach to quantification	***Isolated evaluation***	Classification	Point Method
	Job order	Ranking	Factor Comparison

The practice of job evaluation in Poland is dominated by a certain number of individual methods, most of which belong to the point method group. In Rostkowski's (2001) survey on job and performance evaluation in Poland, 70% of the firms indicated that they were using such a method. Also known as the *point rating* and *point factor* methods, the point method evaluates a job by reference to an evaluation system that assigns point values to a set of compensatable factors (Hopfenbeck 1989, 312; Kanungo/Mendonca 1992, 254). A job is evaluated on each factor, and a certain number of points are assigned. The total value of the job is determined by adding up the points assigned to each compensatable factor. The point method has several *advantages* (Kanungo 1992,

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255). It has an objective basis, inasmuch as the judgements are made rationally by reference to compensatable factors that are job related, and are weighted and defined in a manner that is acceptable to both employees and management. The mechanism and the process of the point method are conducive to greater reliability and consistency in judgements. The point values of the job structure provide differences in value between jobs, and also indicate the magnitude of the differences. The main *disadvantages* of this type of job evaluation method are that it is time consuming and expensive to develop.

According to Oleksyn (2001, 3), author of the Polish AWP job evaluation method, the point methods used by Polish corporations can be divided into three diferent categories. The first one comprises so-called „universal" methods. These methods were designed specifically for the Polish context by individual authors (scientists, consultants) for direct use in a wide range of different firms. To the second group belong the systems of job evaluation that have been adapted to the specific needs of the individual corporation but which are essentially modified versions of one of the universal methods. Oleksyn's third group refers to those methods developed by employees or external consultants specifically for use in a single firm, without taking one of the existing methods as a basis. Not infrequently, however, methods declared as belonging to group 3 are in fact methods of type 2, because one of the existing „universal" methods (group 1) was originally chosen as the basis of the job evaluation system. A real need to develop a completely new method is actually quite unlikely. If this way is chosen, this has probably psychological reasons (on the side of the firm) or reflects commercial interests (on the side of a consultant). At the same time, these „tailor-made" methods are characterised by certain shortcomings (Oleksyn 2001, 4). First, the persons involved in developing the system often do not possess the necessary theoretical knowledge and practical experience in the field of job evaluation. Second, the methods are often characterised by an inappropriate selection of compensatable factors, which is typically due to the interests of involved groups or individuals. Furthermore, the situation on the external labour market is not sufficiently taken into consideration. Finally, there is a general lack of systematic pre-testing of the new methods before actual introduction and implementation within the corporation.

Generally speaking, the existing universal methods play a dominant role for the Polish practice of job evaluation. In the first place, it is necessary to mention two individual methods have been designed specifically in and for the Polish context: UMEWAP and AWP. Different versions of each method have been developed in the meantime. Moreover, Polish firms, especially by those in foreign ownership, increasingly use certain other methods belonging to the point method category. Examples for this type are the job evaluation methods developed and promoted by Hay and Mercer, both of which are international human resources consulting firms (Oleksyn 2001, 3). Analytical job evaluation seems to be considerably more popular in Poland than the non-analytical version

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– 70% of the firms using job evaluation examined by Rostkowski (2001, 12) opted for analytical methods, while only 30% chose non-analytical methods.

UMEWAP

With regard to the Polish context, the currently most widespread method of job evaluation is the UMEWAP (*Uniwersalna Metoda Wartosciowania Pracy*, i.e. „universal method of job evaluation"). In Rostowski's study (2001), 48% of the companies using job evaluation employed this method. In the past, this method played an even more dominant role, which can be explained by the fact that it was for a certain time practically the only method known to Polish managers (Oleksyn 1995a, 21; Rostkowski 2001, 12). UMEWAP was developed in the 1980s by the Polish Ministry of Social and Labour Affairs. The compensatable factors are primarily based on the CIOS (the Swiss-based *Comité International de l'Organisation Scientifique*) model.

UMEWAP has so far been updated twice. The original version is now referred to as UMEWAP-85, the later versions developed in 1987 and 1995 are called UMEWAP-87 and UMEWAP-95 respectively. While UMEWAP-95, the latest version, attempts to adapt the original system to the new demands of the market economy, UMEWAP-87 still seems to be the most widely used version.

Job evaluation with UMEWAP considers four groups of compensatable factors: complexity, responsibility, demands (physical, mental etc.) and working conditions (Jacukowicz 1988, 21; Kopertynska 1996, 63). The following table gives an overview of the different compensata-ble factors used by UMEWAP-87 as well as their relative weights.

Table 7. Compensatable factors and their relative weight according to UMEWAP-87 and maximum numbers of points credited

General category	Compensatable factor	Maximum value	Maximum total value
Work complexity	Education	75	
	Experience	55	
	Mental ability	45	225
	Skilfulness	25	
	Co-operation	25	
Responsibility for ...	Work process	60	
	Decisions	50	
	Machinery and products	25	180
	Health and safety of others	25	
	External contacts	20	

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General category	Compensatable factor	Maximum value	Maximum total value
Demands	Physical demands	45	135
	Demands on nerves and senses	25	
	Mental demands		
	Monotony	25	
	Psychological demands due to a low prestige of the job	20	
		20	
Working conditions	Work environment (Temperature, noise, gas/vapour, dazzling/lack of light, dampness)	70	90
	Risk of accident	20	

Source: Jacukowicz 1995, 40

Some companies have carried out certain modifications to the original method in response to specific organisational requirements when using UMEWAP for job evaluation. Sometimes, one or more dimensions are eliminated if they are of no relevance for the jobs being evaluated (Kopertynska 1995, 24), or new dimensions are added, such as „responsibility for co-ordination“ with regard to management positions. It can also be observed that the number of degrees used for evaluation is adapted or that the maximum number of points awarded to each compensatable factor is modified (e.g. the maximum number of points for „education requirements“ is reduced by 10 while that for „responsibility for the work process“ is increased by 15). With regard to the modifications to the UMEWAP-method at the firm level, one of the main problems is that the adaptations are most frequently carried out by employees, who are not sufficiently experienced in the field of job evaluation. While the original method can be regarded as relatively well structured and transparent, the results of the modified evaluation systems are not always easily understood by the employee concerned (i.e. the person whose job is being evaluated). In one case the job of one secretary was given a 40% higher value than that of her colleague, even though the job descriptions were basically identical. The reason was that the higher educational level of the first employee had been considered, even though this contradicts the very idea of job evaluation (the job, not the person holding the job, is to be evaluated). The better paid employee possessed an educational qualification that was actually not a pre-requisite for the position, whereas the other person had a lower qualification than was considered important for carrying out the tasks linked to the position. Another frequent weakness is the double consideration of the work experience dimension within a firm's compensation system. In these cases, in addition to the experience-related compensatable factor in the job

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evaluation system, a specific amount is paid on top of the base salary also relating to the professional experience of the individual employee.

Thus, modifications of the UMEWAP method carried out without the necessary care and knowledge result in a compensation system, which, as a whole, is no longer transparent and consistent. It becomes in itself the source of dissatisfaction on the side of the employees and can lead to conflicts between them and the management. If it is not clear whether pay differences are due to performance and demands or a result of good „relations“ with management, individual negotiation or other social aspects, the employees' acceptance and support of the compensation system is at risk. In practice, it is not so much the nominal level of pay that determines employee satisfaction and motivation, but an appropriate justification for differences in pay (Ridder 1999, 357).

The continuous updating of job evaluation results is also an important problem area regarding the use of UMEWAP. In many companies, the method was introduced before 1989 and the existing jobs were then evaluated. However, in many cases, the results have not been updated since, even though the job contents have in the meantime been subject to very considerable changes (Rostkowski 2001, 6). In other companies, the job evaluation was updated, but the adaptation was carried out only half-heartedly, resulting in a less consistent and transparent compensation system. As a result, management frequently has considerable difficulties explaining and justifying the final results of the job evaluation process. Developments of this kind are liable to add considerably to the pay-related conflict potential between workforce and management (Sekula 1995, 27).

All in all, although the UMEWAP method is generally regarded as relatively easy to manage compared to some other methods (Oleksyn 1995a, 21), its practical application is sometimes problematic in the Polish context.

AWP

The problems encountered partially when using UMEWAP led to the development of the simpler AWP (*Ankietowe Wartosciowanie Pracy*, i.e. „questionnaire-based job evaluation“) method of job evaluation, requiring no specific knowledge of job evaluation. Besides the original method, two modified versions are now in use: „AWP-2“ and „AWP-2 bis“. Job evaluation according to AWP is based on filling out a questionnaire for each job being evaluated (a separate job description is not required) (Oleksyn 1995b, 11). Each time the evaluator selects one out of several options proposed in the questionnaire (e.g. „For the job, the following education is required: A) Primary education, B) Vocational level, C) ...“). For each answer, a fixed number of points are directly credited, so that the job value can directly be determined on the basis of the options chosen by the evaluator. In its basic version, the AWP-2 bis method

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operates on the basis of 15 analytical criteria which were chosen in relation to the CIOS system (Oleksyn 2001, 6): required education, required experience, independence and innovation, required foreign language abilities, necessary computer-related abilities, required co-operation within the organisation, skilfulness, responsibility for work results and subordinates, responsibility for machinery/means of production, responsibility for safety of others, responsibility for external contacts, intellectual demands, attentiveness and perceptiveness, physical demands and unusual working hours. Each job is evaluated with respect to each of these criteria using five different value levels, the profiles of which are verbally described by the method. In its current version, the method offers two different approaches to evaluation, comprising respectively a maximum of 15 (pattern A) or 12 (pattern B) different dimensions. The method can be further modified with regard to the practical requirements of the individual firm, but this should only be done by someone well acquainted with the method (Oleksyn 2001, 6f.). AWP is also available in an automated, computer-based version. The answers are entered directly and the calculations are carried out automatically. The evaluator has only got to choose the most appropriate version of the method and to answer the relevant questions (Oleksyn 2001, 5f.).

All in all, AWP seems to have proved its worth in practice, which may mainly be attributed to the fact that it is simply structured and easily applicable (Oleksyn 1995b, 15). Unlike UMEWAP, however, it is still applied by only a relatively small number of companies: among Rostkowski's (2001, 12) 50 companies active in job evaluation only three (or 6%) chose AWP compared to 24 (or 48%) using UMEWAP.

Tailor-made methods of job evaluation

A certain proportion of Polish companies use analytical methods designed for their own specific needs. In contrast to the „universal" methods (UMEWAP, AWP) they are referred to as „tailor-made" methods of job evaluation. 12% of the companies studied by Rostkowski (2001) indicated to be using this type of evaluation. It is difficult to give a general estimation of the quality of this category, but there are certain limitations of the effectiveness of these methods compared to the universal methods. First of all, the tailor-made methods generally only consider a very limited number of compensatable factors. Sometimes the value of a job is only defined via the amount of training and experience required for carrying out the relevant tasks. There is also the danger of overvaluing individual factors, e.g. when physical demands are already considered via the job evaluation (base salary) and then a second time in the form of a separate allowance for extraordinary demands related to the job.

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Job evaluation methods designed by international human resources consultancies

Of the companies examined by Rostkowski (2001), 4% indicated the application of one of the job evaluation methods promoted by international human resources consultancies. Currently, the Mercer and the Hay methods seem to be most popular within the Polish corporate environment. The Hay method is currently being used by more than 200 mainly international companies. The Mercer method is also becoming more and more popular; the number of firms applying it might in the near future reach the scale of the Hay method. The basic approach of these methods is similar to the other point methods; the specificity of the „international" methods of job evaluation is their market-orientation, i.e. when deciding on the final salary to be paid for a given job, this is done systematically with regard to the general level of remuneration in the relevant labour market.

The Hay and Mercer methods are similar in their general approach and the structure of the job evaluation process. First, a detailed description of the job content is edited. On this basis, the job is rated with regard to a specific set of categories. Finally, a total score is calculated for the value of the job, and the final salary is determined, making use of relevant labour market information.

The categories used for the detailed evaluation differ between the two methods:

Hay Method	Mercer Method
Know-how (Technical, human relations, breadth of management) **Problem solving** (Challenge, environment) **Accountability** (Freedom to act, impact, magnitude) **Working conditions**	**Responsibility** (Impact, supervision, area, interaction) **Job complexity** (Qualification, problem solving, environmental conditions)

Each company using a given method can decide to adopt it over completely, or it can only apply it in part by adapting it to its own needs. For example, a company using the Hay method might decide specifically not to consider working conditions, while corporation applying the Mercer model might decide to do so. In most cases, a company chooses the method of a consulting firm and then joins their remuneration survey group. This means that, on the one hand, the company provides the firm with information on the salaries they pay for certain key positions and, on the other hand, it is informed on the results of this panel, i.e. about the market level of remuneration for specific positions of a given function and hierarchical level. In other cases, corporations only decide to take part in the

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survey and use the data provided, while at the same time employing their own method of job evaluation (e.g. UMEWAP, AWP).

Non-analytical methods of job evaluation

30% of the companies with job evaluation examined by Rostkowski (2001) used non-analytical methods. All of these firms used job classification methods (Rostkowski 2001, 12). The job classification method involves placing jobs in pre-established classes. Each class bears a description relating to such factors as education, responsibility, level of difficulty and public contact. The classes are arranged in an ascending order, from the most simple to the most complex in terms of the factors used to describe the classes. In the actual evaluation, the description of each job is reviewed, and the job is placed into the class that best matches the job description. Thus, the job value is determined by the job's placement in the predetermined series of classes (Rostkowski 2001, 21; Hopfenbeck 1989, 307ff.; Kanungo/Mendonca 1992, 248ff.).

According to Oleksyn (2001, 2), the practice of job evaluation in smaller Polish companies is dominated by the non-analytical methods, whereas larger firms more frequently make use of the analytical methods.

Performance appraisal and performance oriented compensation in Polish companies

Performance appraisal

A second, increasingly important part besides base salary – as determined in the process of job evaluation – is performance-related compensation or variable pay. Performance-related pay refers to that part of the salary that is not paid „automatically“ for carrying out the regular tasks linked to the job, but for the individual performance of the employee holding that position.

In fact, there were already some formal elements of performance related compensation in the Polish centrally planned economy. Then, in the mid-1980s, government regulations on performance related compensation were abolished. Thus the organisations obtained complete freedom to develop and introduce their own systems of performance appraisal, but only a few corporations made use of this new freedom. In most cases, either the performance orientation was completely given up or the existing methods were simply kept. The „old“ method essentially consisted of paying an additional fixed allowance to the base salary, without further analysing the performance on the job. The amount was virtually automatically paid at the end of each relevant period. Its non-payment was considered as a negative assessment of the work quality of the employee concerned (Jacukowicz 1997, 97).

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According to Jacukowicz (1996, 30), there are currently three different models of performance-oriented compensation used by Polish corporations. In model A, an allowance is paid for over-average performance. The expected average performance is considered via the base salary as the result of the job evaluation. This model is typically used by companies that have in place analytical systems of job evaluation. A company following model B pays a performance-oriented allowance specifically for those work results that are regarded as crucial for the overall success of the corporation, e.g. product quality or use of raw materials. In model C the performance allowance is a regular part of the salary, which can only be withdrawn under certain conditions. In the case of an extraordinary performance it can also be increased. For example, a Polish bank applied the following regulation. The allowance is paid as a regular part of the salary and withdrawn under three conditions: distraint of the employee's salary, intentional damaging behaviour towards the company and formal warning of the employee by the management.

Until the early 1990s, only very few companies regarded the performance-oriented allowance as an incentive for their employees doing a better job. In recent years, however, there has been an increasing awareness and readiness to use the instrument and to introduce state-of-the-art systems of employee and performance appraisal. More than a quarter of the companies examined by Rostkowski (2001) had only become active in this field only during the last three years (i.e. 1998 to 2000). A further 8% had introduced their system in one of the three years before that (i.e. 1995 to 1997). In the years before (since 1989), only 3% had introduced such a system (Rostkowski 2001, 15). 36% of the companies were still without any systematic performance appraisal but planned to introduce an appropriate system in the near future. This corresponds to 61% of all companies without a system of performance appraisal. According to the data collected by Rostkowski (2001), the practice of performance appraisal is dominated by two different methods: rating scales (81% of companies with performance appraisal) and the essay method (35%). Other methods such as ranking or 360-degree-feedback apparently do not yet play an important role (3% each), but these methods are also becoming more and more well known, and there seems to be more openness among the companies planning to start performance appraisal in the near future to turn to these instruments (11% and 7% for ranking and 360-degree-feedback, respectively; Rostkowski 2001, 18).

The use of *rating scales* for performance appraisal requires choosing the relevant criteria and their relative weight. Specific scales are also required with different levels ranging from „poor“ to „excellent“. The relevant criteria often refer to aspects such as co-operation, communication ability, initiative and punctuality. The appraiser rates the appraisee's performance on each scale, and under consideration of the relative weights a total performance value is obtained

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for the employee (Ridder 1999, 391). Most frequently, between 5 and 20 different criteria and 4 to 7 different performance levels are chosen (Rostkowski 2001, 22). Smaller Polish corporations in particular only consider 4 or 5 different traits (such as product quality, material consumption, cleanliness of the work place) (Czajka/Krawczynski 1992, 55).

When choosing the *essay method* approach, the appraiser's main task consists in preparing a written statement about the employee being appraised, usually concentrating on describing specific strengths and weaknesses in job performance. The statement may be written and edited by the appraiser alone, or be composed in collaboration with the appraisee (Ridder 1999, 388). In a more structured form the method can include answering questions such as „Describe in your own words the progress made with regard to: work quantity, work quality, work-related knowledge and skills, development opportunities, own strengths and weaknesses." (Rostkowski 2001, 21)

The specific feature of *360-degree-feedback* is the multitude and heterogeneity of the appraisers. In general, those included in the appraisal process are internal and external customers, superiors, colleagues, subordinates etc. Potential appraisers are all those who are in regular contact with the appraisee and can give a relevant assessment of his or her job-related performance (Ridder 1999, 390; Rostkowski 2001, 21ff.).

Performance-based pay in Polish companies

Currently, there are relatively few data available on the proportion of employees in Poland-based corporations who are actually paid to a considerable extent on a performance-oriented basis. According to an estimation made by the human resources consulting firm Watson Wyatt, about 80%, 70% and 50% of all general managers, middle managers and professional staff in CEE countries, respectively, are currently eligible for annual bonus programmes (Watson Wyatt 1999). Both short-term and long-term incentives seem to be used on an increasing scale, and the variable pay that is actually paid out (as a percentage of annual base salary) is similar to Western Europe. In fact, in some Western companies the proportion of variable pay in their Polish subsidiaries is already higher than for the corresponding positions in their home countries. The bonus paid to an employee for a given period generally depends on two factors: the individual performance and the performance of the company.

Table 8. Proportion of variable and base salaries of general mangers in selected European countries

	HU	**CZ**	**POR**	**PL**	**UK**	**A**	**D**
Variable pay / base salary	29.0%	16,3%	21,3%	37.0%	23,3%	30,4%	22,3%
Variable pay / total salary	22,5%	14.0%	17,6%	27.0%	18,9%	23,3%	18,3%

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Source: Watson Wyatt 1999

For the case of the companies situated in Poland, it is estimated that bonuses account for about 15% of the total remuneration for the upper management levels and for 10% for the lower management levels (F.A.Z.-Institut, 1997, 25).

Long-term incentives such as stock option programmes are also being used more and more in the CEE region. This is especially true for the fast growing hi-tech and telecommunications sector (Watson Wyatt 1999). Responsible for this development is the competition for experienced executive talent and the fact that stock options can help to create an ownership mentality. This latter point is a particularly important issue for companies in emerging markets where, until the 1990s, employees worked for state-owned enterprises. Furthermore, stock options offer a good way to build more leverage into the pay package. For example, a Watson Wyatt study carried out among 25 high-tech and telecommunications multinationals operating in CEE found that these companies are fairly democratic in providing long-term incentive programmes: of the companies surveyed, 63% grant stock options to all employees. Restricted stock and other long-term incentive plans reserved exclusively for executives at higher levels of the organisation are rarely found in this region. In their stock option plans, most companies (60%) use a phased vesting schedule, typically over four years; the length of the minimum period in which the employee may exercise stock options is being regarded as critical in terms of tying a person's interests to the success of the company (Watson Wyatt 1999).

Benefits and incentives paid in Polish companies

Benefits

The Polish corporate practice with regard to benefits can best be understood if it is analysed within the context of the other CEE countries. With the growing maturity of both economies and labour markets in most countries in the region, companies have started redefining their reward systems in the last couple of years. The days when „cash was king“ now seem to be over. Employees in the main CEE markets are finally becoming aware of the total package, i.e. cash compensation, benefits and other non-monetary incentives offered by the employer. There is also an increasing focus on retention, at least for key employees. When multinationals entered the region a decade ago, the biggest challenge was to find capable staff in a market of scarcity. Today there is a growing pool of talented local staff, particularly in the more advanced markets where the crucial issue has become to keep them on board. In countries where the market economies are deeply rooted (for instance Poland, Hungary, the Czech Republic, Slovenia and the Baltic States), a „fair“ salary has to be topped up by a package of other rewards, incentives and working conditions. Key motivators are cars, death and disability cover, medical benefits (particularly in

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Poland), company pensions and housing loans. An increasing emphasis is also being put on enhanced job satisfaction and non-financial incentives such as training. Substantial relocation benefits are more widespread in CEE than in the rest of Europe as local employees are reluctant to move from the capital cities to provinces, even when such a transfer would be rewarded by a dramatic career advance.

The most widely provided benefits in the region are death and disability cover. Over 60% of companies in Hungary and Poland offer death benefits. A disability benefit is offered by over 50% of companies in the Czech Republic, Hungary, Poland, Romania and Russia. These percentages have increased over the years as multinationals impose their global philosophies locally and employees start to expect these benefits as part of their total remuneration package. The most typical payout in case of death or total disability is two times annual base salary (Watson Wyatt 1999).

Table 9. Benefits paid by corporations in selected CEE countries

	Estonia	**Czech Republic**	**Hungary**	**Poland**	**Russia**
Death	54%	58%	60%	63%	58%
Disability	38%	58%	49%	59%	55%
Medical	15%	24%	18%	51%	77%
Retirement	8%	2%	18%	8%	17%

Source: Watson Wyatt 1999

In most countries, it is still rare for company-sponsored, supplementary medical benefits to be provided by a majority of employers. The exceptions are Poland and Russia with over 50% and 75% of companies, respectively, providing this benefit. The prevalence of medical plans is better understood when viewed in conjunction with the general condition of the state health sectors in each country. Despite numerous reforms during the last decade, the situation has improved very little and demand for private health care has risen significantly as a result. In Poland, this has been further fuelled by a new amendment to the Labour Code, which has been in force for the last three years. The code dictates that every company must perform pre-employment medical examinations and, thereafter, regular checks at specified intervals. Companies have therefore officially set up health plans to provide these compulsory examinations and the plans are thus considered as a tax-free benefit. The plans typically only cover outpatient care (specialist visits, medical tests and minor surgery); dental and optical services are not usually covered but are often offered at a discount to employees. Top management often get a major medical plan, which includes family cover. However, some employers feel that most or all employees should be included, and family cover is a further important issue they have started to think and to act on. There is also developing a certain market for corporations

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seeking general medical cover for their employees. For a relatively moderate contribution, companies in the more central regions of the country (e.g. Poznan, Warsaw) can now join specific schemes of private service providers offering high quality medical care to the corporations' employees and – if included in the insurance policy – also to the members of their families.

An area that is still slow moving but is generating a lot of interest is that of retirement benefits. Generally, fewer than 20% of companies offer retirement benefits with Hungary, Russia, Slovenia and Bulgaria at about 18% compared to 1% in Lithuania and 2% in the Czech Republic. Whereas companies in Central and Eastern Europe have not yet fully embraced the need to offer supplementary retirement benefits, this is changing. The increasing focus on retention coupled with reduced state provision makes retirement benefits an increasingly signify-cant issue. This issue will be further stimulated by the sweeping social security reforms in the region. Hungary introduced a three-pillar pension system at the beginning of 1998, and Poland has been following suit since 1 April 1999.

Incentives

Incentives such as company cars (about 90% of managing directors and 60% of managers and specialists of the larger companies) and company loans are quite popular in Poland (due to the comparatively high interest rates and the general difficulty to obtain bank loans).

Table 10. Incentives paid by Polish companies to different groups of employees

	Top management	Managers	Specialists	Administration
Housing loans	27%	39%	34%	36%
Car loans	6%	8%	5%	5%
Other loans	22%	30%	27%	28%
Private use of computers	40%	42%	22%	2%
Access to internet at home	12%	13%	15%	3%
Holidays sponsored by employer	5%	3%	3%	5%
Household assistance	13%	12%	12%	8%

Source: Wolynka 2001

Polish social insurance contributions

In order to comply with the Polish social insurance system, employer and employee have to pay a variety of contributions calculated according to the employee's salary. Certain contributions are paid jointly by both sides while other elements only concern either the employer or the employee.

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Table 11. Employer and employee contributions in the Polish social insurance system

Type of insurance	**Rate***	**Financed by**	
		Employer	Employee
Social Insurance ***Old age***	***19,52***	50%	50%
1st pillar	11,22		
2nd pillar	7,30		
Demographic reserve fund	1,00		
Incapacity for work and survivor's pension fund	13,00	50%	50%
Sickness	2,45		100%
Work-injury	1,62** in 1999	100%	
Total	36,59		
Unemployment	2,45	100%	
Health insurance	7,50***		100%

* Calculated in relation to the remuneration after contribution deduction./** Planned contribution rate from 0,40 to 8,12% of the basis for pension calculation./*** Contributions deducted from personal income tax due.

Source: ZUS, Bureau for European Integration, March 2000

In order to see how this system works out for an average company and its employees, we present an analysis of an illustrative corporation with 100 workers, each receiving a salary of 1000 PLN per month.

As can be seen from the table below, a net salary of 1000 PLN obtained by a worker corresponds to 69,95% of the gross salary. The relation between the net salary and the gross amount varies according to the salary. For the minimum wage of 559 PLN (gross amount 760 PLN) it amounts to 73.58%, for 3500 PLN it amounts to 67.05%.

First, the contributions payable by the employee have to be calculated:

Table 12. Social insurance contributions to be deduced from a monthly gross salary of PLN 1000 on account of the employee

Gross salary	Contribution to state pension system: 9,76%	Contribution to incapacity for work and survivor's pension fund: 6,5%	Contribution to sickness fund: 2,45%	Contribution to health insurance (7,75%) plus advance on income tax	Net salary
1.	2.	3.	4.	5.	6.
1429,66 PLN	139,53 PLN	92,93 PLN	35,03 PLN	162,17 PLN	1000,00 PLN

Source: Milewicz 2001

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Second, the contributions payable by the employer are calculated:

Table 13. Social insurance contributions to be deduced from a monthly gross salary of PLN 1000 on account of the employer

Contribution to state pension system: 9,76%	Contribution to incapacity for work and survivor's pension fund: 6,5%	Contribution to work-injury fund 1,62%	Contribution to unemployment fund: 2,45%	Contribution to guaranteed benefits fund 0,08%	Total employer
7.	8.	9.	10.	11.	12.
139,53 PLN	92,93 PLN	23,16 PLN	35,03 PLN	1,14 PLN	291,79 PLN

Source: Milewicz 2001

In order to pay an employee 1000 PLN in cash, an employer needs to spend 1721,45 PLN. At this stage, the net salary corresponds to 58,09 % of the total costs.

Further on, the employer has to pay a specific yearly contribution for each employee to the general „Social Fund“ (ZFSS or *Fundusz Socjalny*). In 2001, this contribution amounted to 620,54 PLN (51,71 PLN per month) for each employee.

Finally, our employer would have to pay another contribution to a general fund dedicated to the rehabilitation of the disabled (PFRON, *Panstwowy Fundusz Rehabilitacji Osob Niepelnosprawnych*). For all of the 100 employees earning 1000 PLN net, this contribution would amount to 4648,15 PLN per month.

Table 14. Social contributions paid for an employee with a net salary of 1000 PLN

Contributions paid by employee	429,66 PLN
Contributions paid by employer	291,79 PLN
Monthly contribution to Social Fund	51,71 PLN
Monthly contribution to	46,48 PLN
Total	819,64 PLN

Source: Milewicz 2001

Finally, the 1000 PLN going directly to the employee only account for 55% of the overall cost incurred; compared to the net salary, the contributions correspond to 81,96%.

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Conclusion

In Poland, companies have to be aware of considerable variations within the job market when deciding on their employees' salaries. With regard to geography, the high pay levels in the Warsaw region, and, to a certain degree, in Silesia, are a very specific trait of the Polish labour market. Other important factors are ownership, with public companies paying higher salaries than private ones and foreign corporations paying more than domestic ones, and industry.

To determine the base salary of their employees, most companies use analytical methods of job evaluation specially developed in and for the Polish context. Here, it has to be seen whether the more recently developed methods such as AWP and UMEWAP-95 will find more widespread use. At the same time, methods promoted by international human resources consultancies are getting increasingly popular, especially in the private sector. This development can contribute to a general professionalisation and modernisation in this area and might also indicate a higher market orientation of the companies in determining the base salary.

In the area of performance appraisal and performance-oriented compensation, Polish companies are also increasingly developing their own management techniques, even though – especially in the public sector – the heritage of the socialist era still plays a certain role. An interesting question for the future is whether such modern methods like 360-degree-feedback will find a more widespread use within the Polish cultural and corporate context. Especially for the remuneration of Polish managers, performance related pay plays an important role. With regard to the proportion of employees concerned and the relevance within the total compensation package, it is already more important than in some Western countries with long established market economies.

In the area of benefits management, Polish corporations have recently been redefining their approaches, with benefits are becoming increasingly important. The time when employees only looked at the amount of cash received at the end of the month are now over, and non-cash elements are becoming more and more significant. The importance of benefits such as death, disability and medical coverage is relatively high compared to other transformation countries, which can at least partly be explained by the considerable shortcomings of the country's social security system. The popularity of other elements of the remuneration package such as car and housing loans is also due to country specific factors (i.e. in this case high interest rates and general scarcity of bank loans).

Finally, social insurance contributions represent a very considerable source of human resource-related costs in the Polish context. In relative terms, this kind of „benefit“ has reached a similar proportion as in some high cost countries in Western Europe. The corresponding regulations considerably reduce the indivi-

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dual corporation's freedom of action with regard to flexible and innovative benefits and incentives management.

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