

# RADIO FREE EUROPE *Research*

## EAST EUROPE

● POLAND  
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### EMPLOYEE PREMIUM SYSTEM CHANGES FOR INDUSTRIAL ENTERPRISES AND ASSOCIATIONS

Summary: Two resolutions of the Council of Ministers, published in December, 1966, introduced essential changes in the premium system for the majority of white-collar employees in the state economy.(1) These resolutions should be taken as one of the moves designed to carry through complex changes in the system of planning, organization and management of the national economy. The two resolutions introduce a number of new incentives, especially as far as the uniform flow of production, increase of export production and integration of cooperation ties are concerned. In addition, they somewhat simplify the heretofore complicated bonus criteria.

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The newly adopted system of bonuses for white-collar workers of industrial enterprises and associations, known as the point system, was introduced barely two years ago. It was marked by a greater flexibility of criteria than the previous system and -- most important -- it allowed for the adjustment of bonuses to the current state needs. It permitted assigning certain main targets to a given enterprise or association, to which a part of the previously established bonus fund would be linked. One could also adjust the size of the bonus to the relative difficulty in implementing a particular target.

Several problems remained, however, over which the previous system had little influence, especially:

-- low interest shown in improving the financial results of production and an inadequate relating of production profitability with the selected direction of its development;

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(1) The resolutions are: No. 380 of 6 December 1966, changing the rules governing the granting of bonuses to white-collar workers in state industrial enterprises and No. 381 of 6 December 1966, changing the rules of remunerating employees of associations which group together state industrial enterprises and construction and out-fitting enterprises.

-- insufficient interest in improving the quality of production and the development of export production;

-- lack of interest in implementing cooperative agreements and insuring a regularity in the fulfillment of production plans.

These considerations were taken under special attention when working out the new principle of bonuses.

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The basic condition for the payment of bonuses in enterprises in the fulfillment of the directive index of net profitability (it will be applicable in a majority of enterprises), gross profit or output or the level of attainment of the profit index. Apart from the type, the bonus will depend, in any case, on a factory's financial success. In associations, the condition for the granting of bonuses is the implementation of the profitability index by the whole association.

The size of the bonus fund depends on the importance and difficulty of the targets and, especially, on the increase of export production. In enterprises, the size of the basic bonus fund is to vary from 10 to 30-35 per cent of the wage fund, and in associations from 12 to 35-40 per cent of the wage fund. The payment of at least 25 per cent of the bonus fund in enterprises is related to fulfilling the quality improvement target. The enterprises remit five per cent of their bonus fund to the association, creating a pooled reserve fund for the payment of bonuses to enterprises unable, for reasons beyond their control, to achieve the conditions necessary for the payment of ordinary bonuses. Supplementary bonuses for the implementation of objectives not specified in the plan may also be paid out of the reserve fund.

Particular attention is drawn to the supplementary bonuses (or reducing basic bonuses, as the case may be) depending on the degree of implementation of cooperation agreements or on regular flow of production. Depending on the production structure of the enterprises, either the one or the other criterion will be applied.

Thus, for instance, enterprises whose participation in production cooperation schemes is not less than 10 per cent and not more than 80 per cent of the total value of production have the right to include an additional six to 15 per cent of the basic premium fund, provided they fulfill cooperation production targets 100 per cent. In case of a failure to fulfill cooperative production, the bonus fund of these enterprises (granted for fulfillment of the profitability index) is considerably reduced. For instance, if the cooperative plan is only 98 per cent fulfilled, the enterprise loses the premium supplement and onehalf of the basic bonus fund.

Another type of additional bonus is granted to enterprises whose part in production cooperation is either less than 10 per cent or more than 80 per cent of the total value of production. This



bonus depends on regular flow of production and runs from six to 12 per cent of the total bonus fund. A precondition for granting this bonus requires a variation in daily production figures of less than two per cent for the entire period covered by the bonus. Again, as in the case of bonuses for cooperation, if the regularity of the production flow is 98 per cent or less the responsible employees lose the incremental premium and one-half of the basic bonus.

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The establishing of the two systems of supplementary bonuses (or sanctions, as the case may be) constitutes the essential novelty of the modifications in the bonus system.

One must remember that, in view of the organization of the Polish economy, both the regularity of the production flow and the responsibility for fulfilling cooperation agreements remained unsolved problems, causing considerable difficulties. The transition to a higher level of economic integration depends, to a large extent, on the elimination of these anomalies. It is another question whether the incentives of material interest contained in the new bonus system will prove to be adequate. It would seem that payments (premiums) alone are not the most essential element, although their influence on the finances of persons responsible for organizing production is undeniable. At the same time, however, other organizational innovations are to be introduced, and together, may have a salutary effect. However, basic doubts are aroused by the system of "either-or" in the granting of bonuses, meaning that enterprises desirous of obtaining a bonus will either concentrate on cooperation and ignore the need for a uniform flow of production or, when entitled to bonuses for the regularity of production flow, will disregard their production cooperation ties.

This provision shows a typical lack of consistency, characteristic of the application of rules in the Polish economy when seeking general solutions for production management. It may also show the objective limits of the effectiveness of administrative measures which try to imitate the operations of the more automatic elements found in other economic systems.

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