



Analysis of the level of labor costs in polish enterprises

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Abstract

The article moves the issue of labor costs, their structure and impact on the company's operations based on Polish enterprises. The issue of labor costs has existed since time immemorial, because human work is inevitably connected with the development of civilization. The problem of rewarding therefore existed during the construction of the first pyramids, the first mass production of cars in the Henry Ford factory and today. A common feature of past and present times is the fact that the aim is to reduce the labor costs as much as possible while maintaining unchanged quality and productivity at work. The author draws attention to the complexity of the category of labor costs in modern enterprises and the difficulty in their optimization. On the basis of the analysis of the literature on the subject and legal acts, fundamental assumptions and components of labor costs were characterized. During the analysis, the conclusion was drawn that the need to reduce labor costs contributes to the emergence of new phenomena, including employee outsourcing, which may be the basis for further research into this category of costs.

Keywords: *Labor Costs; Remuneration; Tax System; Social Insurance System; Employee Outsourcing.*

1. Introduction

The concept of labor costs is inextricably linked to the rewarding of work, as this is the main component of this category. Therefore, when talking about the need to reduce labor costs, we primarily mean reducing the level of remuneration paid to employees. However, since the old days, the fact that reducing the level of remuneration has to be kept in moderation is known, because too low wages will reduce the motivation of employees to work, which will reduce the efficiency of work and, in effect, give the opposite effect in the form of increased labor costs. This principle was already known during the construction of the Egyptian pyramids. Many people think that the workers employed at its construction were treated as slaves. The truth, however, is different because it was a very heavy work, but not a slave labor (Shaw, 2003). When the time of service ended, every laborer left the city with sacks full of wheat and barley, because it was the grain that in Egypt was the common reward for work. The remuneration received was unchanged, additionally they could count on various privileges, including the possibility of a burial near the pyramid built (Kratovac, 2010). Nowadays, it is difficult to name the remuneration received by the Egyptian workers as an equitable remuneration for work, but nevertheless it contained several important features - it was stable and reliable and allowed for a relatively dignified life. An important historical moment in shaping labor costs was the opening of the car factory by Henry Ford. Apart from the fact that one of the first, dynamically operating production lines was used, the way of remunerating employees was a breakthrough. At that time, it was common to pay an employee the amount that was entirely spent by him on the broadly understood "survival", i.e. the purchase of food or clothing. This was common in the lowest social classes, and especially in the production workers who could have dreamed about free cash, and work usually meant only survival. Henry Ford recognized the human factor as very important in the company's operations and decided to reward

all employees fairly, no matter what position they work. He offered \$5 for an eight-hour working day (Folsom, 1998), which was also a novelty, because a twelve-hour working day was common, in addition paid a few times worse. Ford found himself spending \$100 to train each new worker, though many stayed only for a month or two and then quit (Folsom, 1998). Thanks to such measures, he became one of the first known managers of the company, which, by increasing wages, contributed to the decline in labor costs per unit, because the employees were rested and their efficiency was much higher, making vehicle production shorter. This brief historical outline may seem unimportant today, because nowadays the labor costs are connected with a large number of legal regulations, disproportionately larger than it was 100 years ago. However, basic rights have not changed and the principle still exists that from a certain limit, reducing labor costs by reducing or often not increasing employee remuneration leads to the opposite effect, i.e. to higher labor costs.

2. Definition and components of labor costs

Among the operating costs incurred by the enterprise in the course of conducting business activity, labor costs play an important role, which are related to recruitment, employment and maintenance of the employee in the workplace (Nahotko, 2005). Labor costs consist of many elements dependent on the enterprise and independent from him, based on applicable labor laws, tax law and social security (Kowalska, 2015). The concept of labor costs is replaced by terms such as 'personnel costs', 'employment costs', 'labor costs' and 'human factor costs' (Kulisa, 2004). The most frequently mentioned term of labor costs is from 1925, introduced by Friedrich Leitner. He included labor costs in addition to wages, also expenses related to sickness and accident insurance, training and work clothing (Leitner, 1925). Although this definition is almost 100 years old, it is still largely up-to-date. It is worth emphasizing its two components - sickness insurance and training. Already in the 1920s, it was

obvious that the employee would not always be able to work, and the lack of payment for the period when he was not at work would not be a good solution. Paying attention to training has an even deeper dimension, because this concept does not just cover the simple preparation of an employee for work, but also more advanced training that will adapt the employee to perform more advanced tasks. This means that the employee is not just treated as a person to perform simple, repetitive physical activities, but is distinguished from the machine by the ability to learn and to do creative things. For this you need training, the cost of which is the employer. Eurostat defines labor costs as total employer expenses related to the recruitment of employees, which includes gross remuneration of employees together with insurance premiums, training costs and other expenses such as recruitment costs, clothing expenditure and payroll taxes treated as labor costs and less any subsidies received. The Central Statistical Office understands the costs of work the sum of gross wages and other expenses, including tax and social security contributions, the Labor Fund and the Guaranteed Employee Benefits Fund, incurred by the employer to acquire, retain, retrain and improve staff. The multiplicity of definition of labor costs results from the fact that this subject can be considered from various issues - financial, personal, macroeconomic or microeconomic, since labor costs can be treated as a determinant of the development of small communities and the whole country.

3. Labor costs in Poland

The issue of the amount of labor costs should always be considered from the point of view of the employee and the employer [Januszek, 2003]. For an employee, these costs constitute a source of income, they enable the family to be maintained, while in turn, they constitute a serious burden for employers. For this reason, there will always be a conflict of interests in the reduction of labor costs between the employer and the employee. The role of state intervention in this area is to protect the employee's interests by means of appropriate legal regulations. In Poland, labor costs began to take on greater significance after the political transformation in 1989. At that time, there was a shift from a centrally controlled economy to a capitalist economy. In practice, this meant that from that moment every company had to start making a profit so that it would be profitable and would not go bankrupt. Unfortunately, the transition to this type of economy exposed the weakness in managing Polish state enterprises and most of them had to be privatized and the rest went bankrupt. One of the most frequent reasons for bankruptcy was the high level of labor costs in relation to the effects of work. In previous years, the general phenomenon was the bonus remuneration of employees regardless of the effects of work and general low work efficiency. From the 1990s, labor costs in Poland have become the focus of many studies and attract more attention. The basic and at the same time simple to illustrate at the expense of work is pay. In Poland, the majority of employees are employed on the basis of a fixed or indefinite work contract. They are protected by the Labor Code and have their rights, including the right to 20 or 26-day annual leave. In Poland, as in many countries around the world, there is a minimum wage, the level of which is to ensure decent living conditions. It is subject to successive valorization and from 1 January 2018, amounts to 2100 PLN gross. It is the gross amount that is the basis for calculations. A number of contributions are deducted from this amount. Some of them are paid by an employee, part of the employer, but it is the employer who is obliged to calculate them and pay them to the appropriate office - the Social Insurance Institution or the Tax Office.

Table 1: The Amount of Employer's Charges Resulting from the Payment of Social Insurance from the Employed Employee

Type of insurance	The amount of the burden for the employer
Pension insurance	9,76% of gross remuneration
Disability insurance	6,50% of gross remuneration
Accident insurance	0,67%-3,6% of gross remuneration
Labor fund	2,45% of gross remuneration
Fund for guaranteed employee benefits	0,10% of gross remuneration

Source: The Act on the Social Security System.

The insurance rates resulting from the above table are an additional cost for the employer [Wojas, 2011]. The obligation to pay contributions due to remuneration concerns the same employment of employees on the basis of an employment contract, as well as on the basis of civil law contracts. In the case of civil law contracts, for many years, however, there was no restriction of remuneration by the minimum wage. Therefore, it was common practice for the employer to conclude several contracts of mandate.

Contributions were deducted only from one indicated title with the lowest value, thanks to which the incurred labor costs were reduced. From 1 January 2016, the provisions amending the hitherto principles of being subject to social insurance for the performance of the mandate agreement came into force. They introduce the principle of accumulation of titles when the basis for the size of social security contributions will be lower than the minimum wage in a given month [Denkiewicz, 2015]. In practice, these changes mean that if you do not exceed the amount of the minimum wage you will not be able to pay social security contributions from one indicated contract. This is undoubtedly a negative modification, taking into account the labor costs incurred by enterprises. The legislator explains changes in the desire to protect contractors and the need to collect higher premiums for future pensions. However, from the point of view of enterprises, this is another move increasing the costs incurred. In addition, from 1 January 2017, the minimum hourly rate applies in Poland for the most popular civil law contract, that is mandatory contract. It is subject to annual valorization and is currently 13.70 PLN gross per hour. On a full-time equivalent, it is therefore an amount similar to the minimum wage of people employed on the basis of a contract of employment, which currently amounts to 2,100 PLN gross.

The total cost of employment of one person working for the lowest possible rate is from January 1, 2018 2532, 81 PLN. However, this is a fairly rare amount because the percentage of people earning the lowest income is quite low. In the case of the average wage in Poland in the enterprise sector in May 2018, which amounted to 4696.59 PLN, the total workload amounts to 5 664.57 PLN, which is already quite a considerable value. Calculated for 1h of work, assuming an 8-hour working day and 22 working days, it gives an amount of 32.19 PLN per hour.

To understand the scale of labor taxation in Poland, the total labor cost incurred by the employer with the net salary received by the employee should be compared, as shown in the table below. Also worrying is the fact that in Poland since 2008, there is a progressive tax scale in which, after exceeding the annual income threshold of 85528 PLN, each successive zloty of income is already taxed at 18% instead of 32%. This solution is not surprising, this type of taxation is used by many countries around the world, but the exception for Poland is the fact that the above-mentioned income tax threshold has not been indexed so far, and currently in 2018 is the same as 10 years earlier. In 2008, only 2% of all citizens were subject to income tax in the amount of 32%, currently, as a result of the annual increase in average wages in Poland, the percentage of these people is already 14%, and analysts indicate that in large cities it is much larger, and in Warsaw alone can reach up to 25% (Bartus, 2018). The vast majority of these people are people working on the basis of the most popular form of employment in Poland, that is a contract of employment, and therefore they have no possibility to choose an alternative, more favorable form of taxation as is the case for people running a business.

Table 2: Relation between Net Remuneration and the Total Cost of Employment [in PLN]

Em- ployee gross re- munera- tion	Total employer's labor costs due to employment	Net em- ployee re- muneration	Share of % net remu- neration in the total cost of work
2100	2532,81	1530	60,4%
4696,59	5664,57	3338,94	58,9%
9000	10854,90	6337,15	58,4%

Source: Own study

This means that the employee receives only 60% (and if he earns a little more, even less) the amount spent by the employer on his employment. It is worth mentioning that the above% refers only to mandatory burdens, and the labor costs include additional training courses and other expenses incurred by the employer for the employee, hence in many enterprises the percentage share of net wages in the total labor costs incurred by the employer may even be lower than 50%. Such high labor costs are unfavorable and often lead to the formation of so-called a gray area in which people are employed without the required contract, but thanks to this the cost borne by the employer is equal to the remuneration the employee receives.

4. Benefits and risks resulting from reducing labor costs

The main aim of the entrepreneur's activity is to generate profit. With this process, the key role is played by costs that the level should be minimized. Unfortunately, the costs include also labor costs, so also this group of costs will always be reduced, which is a normal phenomenon. There are many ways to reduce labor costs more or less legally. One of the illegal ones is the previously mentioned employment of employees without signing the required contract and the lack of payment of employment contributions to the Tax Office and the Social Insurance Institution. The only benefit of this solution is the fact that the level of net remuneration of the employee will be very similar to the expenditures incurred by the employer. Due to the lack of a formal contract, however, such an employee is not protected by the Labor Code, he has no rights, and the employer reduces the state budget revenues from taxes and other taxes, thus exposing himself to the control of relevant authorities and high penalties. A similar, illegal solution is formal employment, most often on the basis of the lowest rate in force in Poland (2100 PLN gross), but the payment to the employee of a net amount higher than that resulting from the calculations. In this case, part of the remuneration is paid illegally, without any mandatory taxes. Such solutions were popular in Poland a few years ago, but at the moment only few small-scale enterprises decide to do so, as the detection and punishability of such offenses has increased.

The legal form of reducing labor costs is the so-called self-employment, i.e. a situation in which an employee assumes a business activity and the employer becomes the recipient of the services provided by him. The employee usually issues monthly invoices for him, which act as remuneration (Papaj, 2016). This is a good situation for an enterprise because the work is done and the payment resulting from the issued invoice is no longer burdened with social security contributions. What's more, by not employing employees, and by purchasing services from them, costs related to the payment of holidays, bonuses or other non-wage benefits are reduced. Such a solution does not always turn out to be beneficial for the employee, because he is obliged to pay social insurance premiums for his activity. Of course, in Poland, for the first two years of operation, he has the option of benefiting from preferential social security contributions, while after this time the charges turn out to be much higher (Papaj, 2016). It should also be noted that an employee running a business carries a higher risk related to the lack of orders, and thus the lack of income. An employer who becomes a contractor is not always interested in signing forward contracts, which may result in a lack of income for the employee. Unfortunately, not every-

one can afford such a solution, because for some jobs the employer cannot agree to the transition from the employment contract to self-employment.

5. The idea of employee outsourcing

Another method of reducing labor costs, entering the Polish market, is employee outsourcing [Marciniak, 2009]. In practice, it consists in outsourcing the demand for employees in the employment agency. It deals with the recruitment, training and employment of the staff that the company will request. Employees are not employed by a given entrepreneur, only by an agency that issues invoices for employment services. For enterprises, this is another method of reducing costs, because they are not burdened with non-wage labor costs, as in the case of employment of employees (Papaj, 2016). What's more, there is no need to hire HR and payroll specialists because their duties are taken over by the agency, which is another source of savings. Looking through the prism of the employee, employment by the agency is often less favorable than work under a contract in a given company.

Observing business practice, it should be noted that employment agencies often use "loopholes", employing workers on less favorable terms, because in this chain also the employment agency must earn profits. This problem concerns mainly contract-based employment and occurred a few years ago when there was no statutory minimum hourly rate when working on this type of contract. At that time, the labor rate offered by the agency was much lower than that which she received from the appropriate employer. Currently, as a result of changes in regulations and, above all, increase in competitiveness on the labor market, such phenomena no longer occur and the employee's remuneration only slightly differs from that which the employer himself could offer.

6. Conclusions

Labor costs are a very important and complex category. Their significant role is confirmed by the fact that periodic research on their height and structure is carried out. The human factor is a feature that distinguishes them from other costs, which is why they cannot be considered only as a cost category, because often seemingly higher labor costs may result in increased employee loyalty and labor productivity itself, which in short means that the cost increase may go against appearances contribute to their reduction. This category of costs is, unlike the others, heavily regulated by the state to protect employees against exploitation of employees. Unfortunately, the state's activity at the same time contributes to high taxation of labor, which can be seen on the example of Poland, which gives different effects than those assumed - an increase in the gray economy and the search for alternative forms of employment. This suggests that the state should uphold the law and defend employees, but perhaps this should be done not by raising the minimum rate

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