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## The New Polish Remuneration Model for Managers: A Discussion of the New Remuneration Act<sup>1</sup>

### Abstract

*Objectives:* The main goal of this paper is to provide a short assessment of the new regulation on the remuneration of managers in order to answer the question of whether the new Act is effective and accepted.

*Research Design & Methods:* The article is based on the analysis of the relevant literature and legislative acts. There is also the analysis of the annual statements of listed companies with respect to the application of remuneration principles and the remuneration paid by selected companies in which the State Treasury had a shareholding in Poland, as well as the analysis of the resolutions of general meetings in terms of the determination of remuneration.

*Findings:* The new Act has significantly changed the philosophy of determining remuneration in accordance with the existing corporate governance rules, at the same time eliminating abuse and pathologies, and implementing a mechanism for rewarding active managers who effectively create company value.

*Implications / Recommendations:* The remuneration systems used to motivate management board members of companies, including their method of determination and the principles of the payment of the basic salary and performance bonus. It also had an impact on the managers' motivation, affecting the companies' financial results. Every new regulation should take into consideration a modern, comprehensive, and motivational model of remuneration for managers, one which complies with corporate governance rules and the constitutional principles of social justice.

*Contribution / Value Added:* The conclusions from this paper can be used for academic and business purposes, enabling an in-depth understanding of the current remuneration model and the reasoning behind the implemented solutions, and facilitating the translation of the provisions of the Act on the Principles of Determining the Remuneration of Persons Managing Certain Companies of 2016 into the business realities of companies.

*Article classification:* research article

*Keywords:* remuneration for managers, managerial contracts, remuneration models, pay systems, management by objectives, awards and bonuses, corporate governance

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## Introduction

Remuneration for managers, constituting the remuneration systems used to motivate persons managing companies and including their method of determination and the principles of payment of the salary and performance bonuses, is an interesting academic and practical issue. The adopted remuneration model affects the motivation of employees and plays a significant role in business practice, because the appropriate motivation of managers affects the financial results of companies. Of course, in the case of monopolistic entities or companies performing public services, other factors should also be taken into account when evaluating performance against objectives as regards the provision of service or completion of tasks, but here we are primarily interested in remuneration models.

The question of managerial remuneration can be studied from a number of perspectives, yet perhaps the key one seems to be its connection with the companies' financial results and performance. This is related to enterprise value and its changes for the owners/shareholders (the companies' financial standing translates into both their ability to pay dividends and their valuation or the value of their shares). It is important to indicate that contemporary corporate social responsibility requires that information about the interests of employees be provided alongside data concerning the company's social and environmental impact. Profits, employees, society, and the environment should be perceived as equal parts of companies' responsibilities (Scott, 2019, p. 251).

On the other hand, the perspective of social and political acceptance for the current remuneration schemes is equally important. Both the public and politicians in various countries regularly express indignation at the levels of managerial remuneration, especially when the enterprise in question has experienced a financial crisis or has been threatened by bankruptcy. Moreover, the discussion on managerial remuneration and the impact of short-time decisions (stock options)

on company value is an ongoing one, where the media and the public criticise executive pay for its disproportionate level in relation to other sources of remuneration (Willey, 2019, p. 115; Thomsen & Conyon, 2019, p. 340; Aronson & Kim, 2019, p. 134).

Polish lawmakers have a long-term experience in introducing mechanisms affecting the remuneration of managers. This is a consequence of the long-lasting significant presence in the Polish economic landscape of companies in which the State Treasury holds shares – companies that were created as a result of the political and economic transformation from the central command (planned) economy to the market economy. In 1990, there were over 8,000 state-owned enterprises in Poland (Ownership Transformations of State-Owned Enterprises 2015) which were privatised, commercialised (i.e. converted into companies governed by the regulations of the Commercial Code and subsequently the Commercial Companies Code) or liquidated. In 2017, the State Treasury still had a shareholding in over 400 companies (according to The Ordinance of the Council of Ministers of 3 January, 2017) and there were almost 4,000 companies in total in the 'public domain' (entities in which the State Treasury or local government units or other 'state-run' entities held shares, either directly or indirectly).

The Act on the Remuneration of Persons Managing Certain Legal Entities of 3 March, 2000 – which had been in effect before the most recent election and determined the remuneration model for presidents and members of the management boards of companies – had been amended almost 20 times before 2016. Nevertheless, it should be noted that the aforesaid act, colloquially referred to as 'the Salary Cap Act', regulated the principles and the amount of remuneration only at companies in which the State Treasury had a majority shareholding as well as the companies in which the local government units had a majority shareholding, or companies in which the majority of shares were held by the aforesaid two types of companies.

The purpose of The Act on the Principles of Determining the Remuneration of Persons Managing Certain Companies of 9 June, 2016, was to fundamentally change the approach to the principles of determining remuneration at commercial companies in which the State Treasury, local government units, and their associations (as well as state-owned and municipal legal persons) held shares. The change of approach in remuneration principles was, in turn, intended to enhance the effectiveness of the management of the companies and, as a result, improve their returns. Companies that generate better financial results build a stable economy and, in consequence, become reliable and good employers; that is why a change in the pay system might have an impact on both micro- and macroeconomic indicators as a result of the domino effect.

The guiding principle in the process of drafting the new law was the need to find the appropriate balance between ensuring a flexible remuneration system that would be, to the greatest possible extent, in line with the rules commonly followed on the market and the need to implement the constitutional principles of social justice. The new Act was also intended to effectively protect the new pay system from potential abuse and pathologies.

## Literature review

The literature on this subject tackles a number of questions relating to remuneration models and their tools. It is worth beginning this review by linking the adopted remuneration model and its impact on motivation to the financial results of companies. The financial results of companies – or, more generally speaking, their performance – determines the creation of enterprise value. On the other hand, an increase in the value of the companies' shares and their ability to pay dividends are the main purposes of capital investment.

Nehring (2002, p. 139) points out that the quality and level of motivation of the management team has a decisive impact on the achievement of effects by companies run by managers. This means that

a direct link is established between the qualifications of managers, their willingness to run and develop a business, and the financial results achieved by the enterprise. Remuneration systems for managers, including their motivational elements, affect the quality of the performance of tasks by managers who have a direct impact on the work performed by operational employees and, in consequence, on the enterprise's results. On the other hand, Tyson and Bournois (2005, p. 19), while supporting a claim that in order to conduct business successfully it is necessary to offer remuneration that will attract and retain professional managers, indicate that enterprises should avoid paying excessive remuneration. Naturally, it may be asserted that a higher degree of effectiveness requires higher remuneration. This is because the connection between effectiveness and a company's revenues is one of the key relations in market economy. Therefore, it may be logically concluded that in order to ensure higher revenues, one has to offer higher remuneration. This means that managers at companies that achieve above-average results should receive higher remuneration (Urbanek, 2006, p. 66). The incentive scheme used in such a case rewards the efficiency and effectiveness of operations. Moreover, it is indispensable that the scheme be transparent, extensive, and rigorously applied (Scott, 2018, p. 249).

It should also be noted that this is advantageous from the point of view of the enterprise's owners – higher revenues resulting from the increase in productivity translate into enterprise value and, at the same time, can serve as the source of financing for an incentive scheme (dividing profits between owners and managers).

Durham and Bartol (2009, p. 217) argue that a carefully designed remuneration system that makes remuneration conditional on efficiency leads to better results. The mechanisms used in pay-for-performance systems improve managers' motivation in terms of objectives and, what is of importance to the organisation, help to attract and retain managers.

Remuneration serves as a motivational factor properly if a part of the remuneration depends on the achievement of objectives, i.e., in fact, on the effects of the performed work. The literature terms this element of remuneration in a number of ways: as a variable component, variable element, bonus, award, etc. Dymitrowski and Małys (2017, p. 135) assert that a bonus, as a component of the remuneration system, contributes to the effective fulfilment of the cost-related and income-related function of remuneration. Elaborating on that claim, one should add that the effectiveness of a bonus scheme depends on its alignment with the company's current financial standing, perspectives for its growth, and its current strategy – the mission and vision of the company. Thus, one of the fundamental principles of the operation of remuneration systems is the continuous assessment, evaluation, and adjustment of awards to the changing conditions (Gembalska-Kwiecień, 2017, p. 85). This is confirmed in a publication by Borkowska (2012, p. 36), where the author argues that there is a need for the periodic verification of remuneration policies in terms of their adequacy to the enterprise's goals, given that those goals change over time. Naturally, there are short- and long-term goals, and they may arise from changes in the environment of an economic entity as well as shifts in the scope of business, the owners' expectations, the organisational requirements, or the broader financial situation. The objectives should be set in accordance with the SMART rule, i.e. they should be **s**pecific, **m**easurable, **a**chievable, **r**elevant, and **t**ime-bound (Latham, 2009, p. 171).

Armstrong (1997, pp. 255–256) emphasises that, apart from the consistency, fairness, and transparency of the bonus scheme, it is important that the reward be worth competing for, and individual persons should be able to expect an appropriate reward for a specific behaviour. Therefore, a competitive remuneration scheme is significant for attracting, retaining, and motivating competent managers (Mallin, 2007, p. 171; Thomsen & Conyon, 2019, p. 340).

Managerial remuneration comprises of a fixed portion (the so-called basic remuneration, basic pay, salary, etc.) and the aforementioned motivational component, i.e. a variable portion. Niedbała (2008, p. 160) proposes a division into three elements:

- a fixed portion, which is the salary for the position and represents approximately 40–60% of the total amount;
- variable portion I (bonus), which is based on the variable scope of responsibilities and represents circa 40% of the total remuneration;
- variable portion II (additional bonus), which is a pay for personality, based on a regular appraisal of the potential and the attitude of the person concerned, and as such represents approximately 20% of the total remuneration.

Depending on the period after which the effects are achieved, the elements of remuneration paid as variable remuneration can be divided into the following (Borkowska, 2012, p. 20; Das, 2019, p. 149):

- STI short-term incentives (effects achieved within a period of no more than one year), e.g. commissions, bonuses, profit-sharing schemes and awards;
- LTI long-term incentives, deferred remuneration (effects achieved within a period of more than one year, usually 3–5 years) – they are characterised by a deferral of payments, e.g. shares, share options, cash in the form of deferred bonuses. The aforesaid instruments differ in nature, i.e. they include, among others, ownership, savings, or insurance instruments.

Long-term incentives, reasonably prepared, have emerged as particularly important after a number of financial scandals (such as Enron in 2000). These are meant to prevent managers from pursuing short-term goals, which will lead to losses for shareholders in the long run (Thépot, 2019, p. 150).

As asserted by Ogilvie (2006, p. 141), enterprises also offer their employees, as part of non-monetary benefits, time off and holidays as well as 'family-friendly' benefits, including kindergartens in enterprises, flexible working

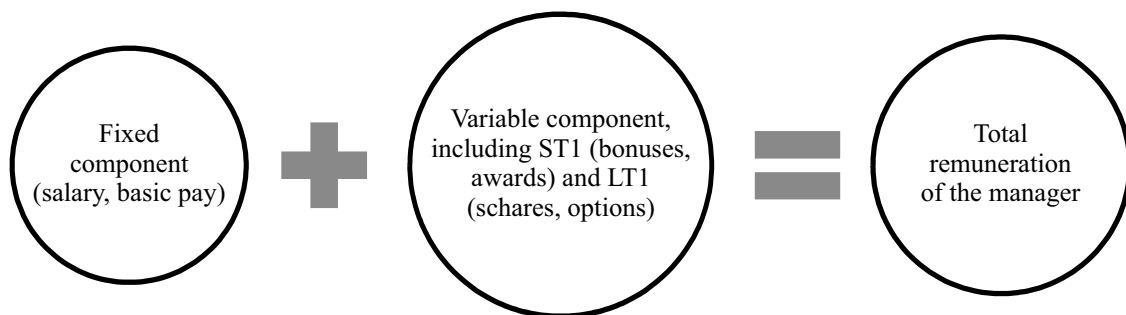


Figure 1. Components of managerial remuneration

Source: own study.

time, and the division of work in such a way as to make it easier for their employees to fulfil their family obligations. In some companies, tailored package systems can be implemented for senior positions (Nankervis, Baird, Coffey, & Shields, 2020, p. 171).

### The goal, the hypothesis, and the research methods

The main goal of this paper is to provide a short assessment of the Act on the Principles of Determining the Remuneration of Persons Managing Certain Companies of 2016, and the essence of such an assessment is the answer to the question about whether the new Act is effective and accepted. Additional analyses are required with respect to detailed goals, and these should provide answers to the following questions:

- to what degree does the new Act comply with theoretical models or good practices, and to what extent are its provisions in line with the reasons why the previous law was amended?
- how did the level of managers’ remuneration at the companies in which the State Treasury holds shares change in practice? (using as an example the remuneration of the presidents of management boards of selected companies in which the State Treasury has a shareholding and the management objectives established by their general meetings of the shareholders).

The answer to the first question requires the presentation of the OECD Guidelines on Corporate Governance of State-Owned Enterprises (2015 edition). From among a large number of recommendations, it is worth mentioning the one that asserts that the state is essentially responsible for the development of clear remuneration policies for the authorities (boards) of state-owned enterprises that foster the long- and medium-term interests of the enterprise and can attract and motivate qualified professionals. In addition, it is assumed that state-owned enterprises, with due regard to the capacity and size of the enterprise, should disclose financial and non-financial information, including the remuneration of members of state-owned bodies (boards). Good practice calls for the authorities (boards) of a state-owned enterprise to effectively carry out their duties with respect to strategy development and the monitoring of management based on a broad mandate and the goals set by the government. They should determine the levels of remuneration for management board members that foster the long-term interests of the enterprise. The crucial elements of those good practices are implemented by the listed companies in which the State Treasury holds shares.

On the other hand, “The Good Practices for Companies Listed on the Stock Exchange 2016”, published by the Warsaw Stock Exchange, includes a set of corporate governance rules and

principles of conduct that affect the relations developed between listed companies and their market environment. Similarly to the international regulations, good practice calls for a company to implement policies on remuneration for the members of the company's governing bodies as well as key managers, which will, in particular, specify the form in which they will receive the remuneration as well as the principles according to which it will be determined and paid. A company strategy is the primary document that determines, among others, the remuneration policies. The short- and long-term goals of the corporate strategy should be reflected in the targets determining the payment of the variable component or awards/bonuses. The long-term creation of value and financial performance in the long run, as well as the stability of the operation of an enterprise, should be the priority in designing the remuneration system and an incentive plan. Persons with the requisite competencies to properly manage and supervise a company should be appropriately motivated and also understand the goals of the company. Therefore, remuneration should be set at a level that, on the given market and in the given sector, will allow the company to attract, retain, and motivate such persons.

Another reference to international solutions is the company's obligation to include a remuneration policy report in its statement on the company's operations. The remuneration policy report should contain, among others, a description of the remuneration system, information on the terms and level of the remuneration of the management board members (including a division into the fixed and variable components), the principles of determining the remuneration, and the principles of the payment of severance pay – both for the parent company in the group and for the subsidiaries. The report should also disclose the non-financial components of the remuneration. The key elements, with the exception of remuneration based on shares or derivative instruments, were taken into account in the Act on the Principles of Determining the

Remuneration of Persons Managing Certain Companies of 2016.

The research methods, apart from the analysis of the relevant literature and legislative acts, included an analysis of the annual statements of listed companies with respect to the application of remuneration principles and the levels of remuneration issued at selected companies in which the State Treasury had a shareholding in Poland. There was also an analysis of the resolutions of general meetings connected with the determination of remuneration.

The conclusions from this paper can be used for both academic and business purposes, enabling an in-depth understanding of the current remuneration model and the reasoning behind the implemented solutions as well as facilitating the translation of the provisions of the Act on the Principles of Determining the Remuneration of Persons Managing Certain Companies of 2016 into the business realities of companies.

### **An analysis of systemic solutions concerning managerial remuneration and their impact on the economic reality**

The structure of the new Act has significantly changed the philosophy of determining remuneration in accordance with the existing corporate governance rules. This is because the legislator imposed obligations arising from the Act on the entity representing the State Treasury, i.e., in fact, on the shareholder and not on the company itself. The entity exercising the owner's supervision over the shares owned by the State Treasury is obliged to ensure that the principles of remuneration for the management body and supervisory body members are determined and followed at the company, adequately to the possibilities arising from the corporate governance system of the company in question. Thus, it is the obligation of the shareholder representing the State Treasury to ensure, using corporate methods, that the general meeting of the company adopts resolutions

establishing the remuneration principles for the members of the management body and members of the supervisory body of the company. The Act states that all the actions taken by the shareholder and the general meeting must comply with the Commercial Companies Code. Such a solution fully complies with the constitutional principle of the protection of property and the inviolability of the rights of other shareholders, and at the same time it also enables an effective influence on entities in which the State Treasury has a minority interest and yet which are in fact controlled by the State Treasury. It also ensures the equal treatment of the companies on the operation of which the State Treasury has an influence, which, in practice, takes place in particular in listed companies in which the State Treasury's shareholding does not exceed 50%.

According to the Act, the principles of determining the remuneration of management board members specified in the resolutions of the general meeting of the company in question are to be disclosed to the public by means of publishing the information on the remuneration principles and the justifications required by the Act on the Website of the relevant entity in the Public Information Bulletin. This is in line with market practice and constitutes a necessary element of the overall picture of the company's performance, serving as a way in which the managers are held accountable for their actions before the shareholders and other stakeholders (Borkowska, 2012, p. 75; Kowalska-Napora, 2014, p. 55). The scope of information that does not have to be published includes detailed data on the management objectives, the weights of those objectives, and the criteria for their achievement and assessment. This is because the indicators used to measure the objectives usually constitute business secrets, as they are key integral elements of the annual plans and long-term strategies or performance plans.

The new approach to the determination of remuneration is revolutionary in a way, since it introduces a clear-cut division between the sphere of 'imperium' and the sphere of 'dominium'

(a division between regulatory actions and ownership-related actions), while at the same time eliminating abuse or pathologies. The Act in question considerably changes the concept of determining the level of remuneration for managers in all companies, introducing a mechanism that makes the amount of the fixed component of the managerial remuneration dependent on objective measures, i.e. on the size of the company measured by the value of its assets, its revenues and employment level, i.e. the scale of its operations and, in consequence, the managers' responsibility. The total remuneration of a management body member consists of a fixed component, expressed as an amount and constituting their basic monthly remuneration, and a variable component constituting supplementary remuneration for the company's financial year. For the largest companies that meet at least two out of three prerequisites in at least one of the last two years (i.e. employing over 1,251 employees or recording an annual turnover of over 250 million EUR or having assets in excess of 215 million EUR), the reference level of fixed remuneration may reach the amount equal to 15 times the average monthly remuneration in the Polish economy, i.e. currently approximately 830,000 PLN (194,000 EUR) per year. Thus, depending on the current standing of the company, its size, and the scale of operations, the remuneration of management board members will change accordingly.

The Act introduces a mechanism for rewarding managers who are active and who create company value effectively. The variable component of the remuneration, which is motivational in nature, represents up to 50% of the basic remuneration, and in the case of the largest companies and companies listed on the Warsaw stock exchange – it is up to 100% of that base. The variable portion of the remuneration of management board members depends on their performance against management objectives. The supplementary remuneration can be paid after the management board's report on the company's operations and the company's financial statements for the preceding financial

year are approved and the fulfilment of duties is acknowledged by the general meeting. Thus, for the largest companies, the total remuneration can amount to 1,660,000 PLN (388,000 EUR) per year, assuming that the incentive portion is paid to the maximum amount. It is worth emphasising again that the payment of supplementary remuneration can be partly deferred for even up to 36 months, which is defined by a resolution of the general meeting, which also specifies what circumstances must arise that affect the achievement of management objectives set out in the contract, in particular causing the loss of the right to receive the supplementary remuneration in whole or in part.

The Act on the Principles of Determining the Remuneration of Persons Managing Certain Companies of 9 June, 2016, became the answer to a number of weaknesses and irregularities. The key changes introduced by the Act can be divided into two groups:

- pro-market changes:
  1. making the fixed component of the remuneration dependent on objective conditions that can be summarised as the enterprise's scale of operation;
  2. introducing a variable component of the remuneration correlated with the company's results, its performance, and the achievement of set objectives; in addition, the maximum level of the variable portion can be no higher than 50% (and in the case of the largest companies and public companies – 100%) of the fixed portion;
- changes preventing pathologies:
  1. eliminating the potential to receive remuneration for holding office in the governing bodies of subsidiary companies;
  2. limiting the notice period to a maximum of three months;
  3. making the right to severance pay conditional on having worked for at least a year as well as limiting the maximum level of severance pay to the amount equal to three times the fixed monthly remuneration;

4. limiting the term of post-termination non-compete clause to no more than six months.

The regulation in question also had another significant effect, namely savings with respect to the payment of remuneration to the management and supervisory personnel.

The Regulatory Impact Assessment (May 10, 2016) indicates that – based on the analysis conducted in a group of 169 companies in which the State Treasury holds shares and which are supervised by the Minister of State Treasury (as of the end of November 2015) – the estimated annual amount of savings with respect to the remuneration of management body members that can be made in consequence of the enactment of the Act will be approximately 59 million PLN. It may be assumed that the actual total amount of savings for the entities covered by the Act might be higher, even by many times. Such an assumption is justified by the total number of entities governed by that regulation, i.e. almost 4000 companies in which share rights are exercised by the State Treasury, state-owned legal persons, local government units, local government legal persons, or companies belonging to the same groups of companies as the above companies.

In order to demonstrate the potential for a reduction in remuneration, the salaries of the presidents of the management boards (CEOs) of all companies listed on the Warsaw Stock Exchange with the State Treasury as one of the shareholders were reviewed with the aim of confirming the application of the remuneration principles and the amounts of remuneration paid a year after the implementation of the new law.

A comparison of the remuneration of the CEOs of entities operating in the power sector in the years prior to the enactment of the Act with the remuneration after its enactment shows a total drop of 49%, which resulted in total annual savings of approximately 4 million PLN.

Following the new regulations, the power sector has become a leader in terms of savings, but positive effects were also observed in other industries. For instance, following the enactment



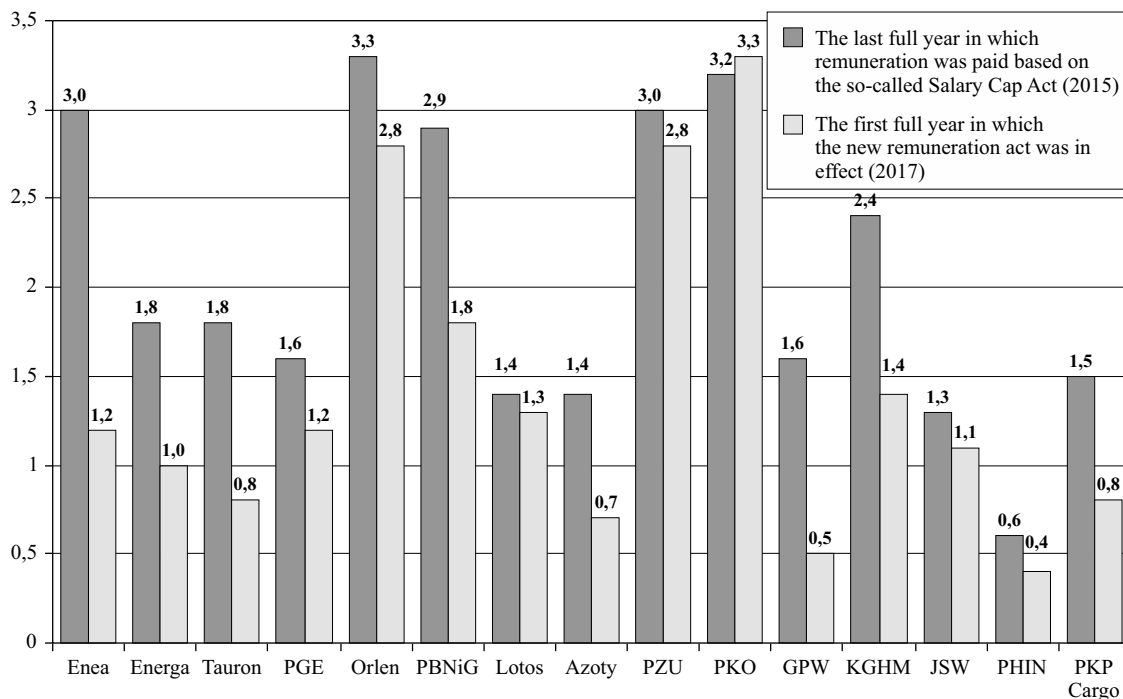


Figure 2. Remuneration of the presidents of the management boards of State Treasury companies listed on the stock exchange

Source: own study.

of the new regulations, the remuneration of CEOs in the chemical sector (Orlen, PGNiG, Grupa Azoty, Lotos) dropped by a total of 27%, which resulted in total annual savings of approximately 2.4 million PLN.

Data presented by other listed companies in which the State Treasury holds shares (PZU, KGHM, GPW, PKP Cargo, PHN) also indicates savings regarding the remuneration of the presidents of management boards (CEOs) made as a result of the new regulations. The amount of paid remuneration has fallen by 35%, resulting in total annual savings of approximately 3.2 million PLN.

In the case of the JSW (the mining sector), a decrease in remuneration is discernible, but due to the fact that there were changes in the management board in each of the presented years, including a temporary delegation of a member of the supervisory board to the management board,

the sum of all the components of the remuneration is not fully representative.

An increase in remuneration was only observed in the case of the PKO BP – including short-term employee benefits, other received long-term benefits, and the received payments as well as those due at the end of the year based on cash-settled shares. It can be assumed that the Act did not significantly affect the bank’s remuneration policy.

After the new Act came into effect, the remuneration of the presidents of the management boards (CEOs) dropped by more than one-third as compared to the period when the Salary Cap Act was in force. It is worth emphasising that the generated savings amounted to almost 10 million PLN and were only related to fifteen persons managing public companies. These savings are funds that can be allocated, among others, to:

- new investment projects;
- the modernisation of the existing means of production;
- research and development;
- remuneration for other employees.

Proceeding to the question of the implementation of the Act in companies in which the State Treasury holds shares, it should be stressed that in each of the cases under review the general meeting of the shareholders adopted a resolution on the principles of determining the remuneration of management board members. According to the provisions of those resolutions, a contract for the provision of management services is established with a management body member for the period in which that member holds office; that contract contains an obligation for such a member to perform the services in person, irrespective of whether that member operates within the scope of the conducted

business. The provisions of that contract are determined by the supervisory board every time.

The resolutions in all companies under scrutiny introduced a division of the total remuneration into a fixed and a variable component, at the same time defining the acceptable remuneration range; in principle, for the listed companies it was from seven to fifteen times the average monthly salary in the enterprise sector, excluding the profit bonuses paid in the fourth quarter of the preceding year, as published by the President of the Central Statistics Office. The resolutions specified a general list of management objectives – the examples of such objectives for the power, gas, oil, and insurance sectors are presented below.

In order to ensure the implementation of the Act in the groups' subsidiaries, the resolutions provided additional objectives that had to be met for the entire variable portion to be paid. These included, first,

Table 1. Examples of general lists of management objectives set by the general meetings of shareholders in 2016–2017

Company name	Examples of general lists of management objectives set by the general meetings of shareholders
<b>PGE</b>	<ol style="list-style-type: none"> <li>1) EBITDA for the PGE Group at the level specified in the approved works and expenditures plan for the given financial year;</li> <li>2) meeting the covenants arising from loan agreements (Net debt/EBITDA);</li> <li>3) the time availability indicator for power plants;</li> <li>4) achievement of specific milestones for the mega-project (Opole, Turów) – in effect until the completion of the mega-project;</li> <li>5) improvement of customer service quality indicators (e.g. no invoice/invoice indicator), effective customer experience management, continuous growth of sales of new products (sales of products containing energy and products that are synergistic with respect to electricity and gas);</li> <li>6) adaptation to the essence of structural changes in the sector (introduction of the process/task structure, correspondence system of technical support);</li> <li>7) development of structural approach to marketing, product, and process innovation; financing research and development work, pilot projects and launches; and the creation of an ecosystem for innovation at the PGE Group, assuming the effective use of funds allocated for that purpose;</li> <li>8) development of a structural approach to brand-building, product marketing, and sponsorship of cultural, sports, and social initiatives.</li> </ol>
PGNiG	<ol style="list-style-type: none"> <li>1) achievement of the consolidated EBITDA by the Group,</li> <li>2) number of newly attracted customers,</li> <li>3) implementation of the Group's strategy,</li> <li>4) timely completion of investment projects,</li> <li>5) annual replenishment of domestic resources of natural gas and oil.</li> </ol>
PZU	<ol style="list-style-type: none"> <li>1) increase in Company value,</li> <li>2) improvement of economic and financial indicators.</li> </ol>

Source: own study on the basis of the resolutions of the general meetings of shareholders of the companies.

the application of the remuneration principles concerning members of the management and supervisory bodies in accordance with the provisions of the Act in all of the groups' subsidiaries as well as, second, the consideration of the determination of the composition of supervisory boards in all of the groups' subsidiaries so that their members could be authorised to serve as supervisory board members. Supervisory boards were authorised to define more detailed aspects of the management objectives and the weights of those objectives, as well as determine the objective and measurable criteria for their achievement and assessment (KPI – key performance indicators). It allowed for the implementation of new objectives while taking into account different groups of stakeholders, especially the customers and the local community (e.g. effective customer experience management; sponsorship of cultural, sports, and social initiatives; domestic resources of natural gas and oil). The lack of references to environmental issues indicates that these obligations of companies are treated as less important than the company's core business; in each of these cases they are included in the CSR reports, but are not related to managerial remuneration.

## Concluding Remarks

The remuneration systems used to motivate management board members in companies, including the method of their determination and the principles of the payment of a basic salary and a performance bonus, which has an impact on managers' motivation, which, in turn, affects the financial results of the companies. The Act on the Principles of Determining the Remuneration of Persons Managing Certain Companies, which was passed in Poland in 2016, introduced a comprehensive pay system for managers, placing a significant emphasis on the integration of the level of earnings and the principles of their payment with the growth of the value of companies for their shareholders. It introduced consistent and transparent principles for all the companies, irrespective of their shareholding structure. The

level of the fixed component of the managerial remuneration depends on the size of the company – measured by the value of its assets, its revenues, and the employment level – and the scale of its operations, and, in consequence, the responsibility of the managers. On the other hand, the principles of rewarding those managers who are active and who create company value effectively are based on the management-by-objectives method.

Respecting the Commercial Companies Code and the corporate governance rules, the intention was that the Act should govern the entities exercising the owner's rights in companies in which the State Treasury, local government units and their associations, state-owned and municipal legal persons held shares. Those changes were not aimed at the companies themselves; as a result, the hitherto separate legal regime for companies in which the State Treasury held shares was eliminated from the economic environment. This constitutes a change in the approach to the implementation of remuneration models in companies, ensuring compliance with the constitutional principle of the protection of property and the inviolability of the rights of other shareholders, as well as equal treatment of companies. It should be emphasised that had such a single act not been drafted, it would have led to the application of various principles, depending on the company's supervising entity, generating unreasonable and inconsistent standards regarding managerial contracts.

The new Act complies with theoretical models, good practices, and international experience. The regulation takes into consideration the conclusions that can be drawn from the literature on the subject, together with the relevant guidelines and good practices. As a result, it imposes the obligation to formulate a remuneration policy, link the amount of remuneration to the size and the performance of companies, divide the remuneration into a fixed and a variable portion, ensure the possibility of limiting the maximum amount of the variable component of the remuneration, and deferring the payment of the variable component.

The structure of the new regulation ensures transparency, guaranteeing that the principles and levels of the remuneration of managers in companies in which the State Treasury holds shares are disclosed to the public, which is something which sets it apart from the Salary Cap Act. A disclosure of remuneration principles and levels of remuneration of the companies' governing authorities' members is an effective mechanism preventing potential abuse in that respect.

The Act also introduced a number of other solutions in response to the weaknesses of the previous system; in particular, it clearly indicated that a management body member will not receive remuneration for serving as a member of a governing body at the company's subsidiaries within the group, which eliminated the possibility for presidents (CEOs) and members of management boards to earn 'extra' money. This is important due to the fact that the social perspective and the political acceptance of the existing remuneration systems determines the legal and business solutions that are in use. Eliminating the criticised practices that stemmed from the Salary Cap Act, the current Act is broadly approved of and its intentions seem to be socially understandable.

It was indicated that the amount of annual savings with respect to the remuneration of management body members that had been estimated when drafting the Act was almost 60 million PLN, but the scale of those savings might be underestimated when taking into account the number of entities included in the conducted analysis as part of the regulatory impact assessment and the total number of companies in the public sphere. One might consider whether an act whose main purpose was supposed to ensure transparent and consistent principles of determining the remuneration of management bodies' and supervisory bodies' members<sup>2</sup> should, in effect, bring savings to

companies. When analysing this question, it is worth taking into consideration the political and social aspects of such regulations. Undoubtedly, in a situation where the CEOs of the largest listed companies that are not 100% private-sector companies earn thirty or even sixty times more than the average annual remuneration in Poland – and the public perceives their appointments as connected with political changes – questions arise regarding the justifiability of the existing remuneration policies. It is also worth noting that in some cases there were no market benchmarks that would enable those levels to be compared to competitive private-sector companies, and the supervisors of entities representing the State Treasury included, among others, monopolistic entities. On the other hand, the Act did not reduce remuneration in all companies. It is very likely that the total annual remuneration increased in some of the large entities that were not listed on the stock exchange, and in those there had been a maximum limit of six times the average remuneration before. On the other hand, in the case of the smallest companies, the potential reduction in remuneration did not bring significant savings at large, and that drop was fully justified by the marginal scale of their operation. Naturally, the question can be asked whether it is reasonable from the owner's point of view to keep such entities in existence. Therefore, it can be asserted that in order to attract managers with a high degree of competence, appropriate processes will be initiated to consolidate small entities operating in the public sphere, which will lead to a significant increase in the scale of their operations and, as a consequence, in managerial remuneration.

After the new Act came into effect, the remuneration of the presidents of the management boards (CEOs) at selected companies in which the State Treasury held shares and which were reviewed for the purpose of this paper dropped by more than one-third when compared to the period in which the Salary Cap Act had been in effect. Nevertheless, the level of remuneration at those entities remains high and, more importantly, the variable

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<sup>2</sup> This also refers to the selected provisions of contracts established with members of management bodies in commercial companies in which the State Treasury and other entities held shares.

component was introduced as a mandatory element of the remuneration system. This enables the integration between the pay system and those KPIs that are of importance to the company and its owners, such as the growth of net profit or the EBITDA, growth of sales/revenues, the implementation of a strategy or a restructuring plan, or the completion of an investment project.

Due to the introduction into the Act of a comprehensive and motivational model of remuneration for managers that is in compliance with corporate governance rules, the regulation under review can be considered as the most advanced set of corporate solutions, one which supports company growth and value creation.

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