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ADAPTABILITY OF ENTERPRISE IN THE ECONOMIC REFORM

1. Qualification and quantification of enterprise's adaptability

1.1. Qualification of enterprise in the theory of economic systems

Genesis and development of socialist relations is a basic determinant of the place of enterprises in the economy's functioning system being expressed in their objectives and functions /including praxiology of behaviours/. In the early stage of their development, the state institution performed fully ownership functions becoming the main and the exclusive economic subject. This role played by the state institution resulted in incapacitation of enterprises. It implies that enterprises were basically operating only on the basis of their economic separation.

Economic separation and operational autonomy ensuing from it /constituting only a lower threshold of economic autonomy/ generated appearance in activity of enterprises, susceptible to direct influencing, of their own objectives and functions of autonomous character. And even though they are their own objectives and functions they are not solely a product of their internal relations but also of economic /and political/ relationships occurring between them and the institution of state. They were expressed in the game of "bargaining-discretionary" character aimed at obtaining tasks and resources for their accomplishment and means of human factor reproduction.

The enterprise's autonomous goal may be considered to be its struggle to ensure for itself /i.e. for management and employees/ a maximum quantity of allocated material means for execution of centrally imposed tasks; and to ensure safely a maximum quantity of consumer goods or maximum level of incomes

/wages/ representing an equivalent for the performed work, which should be getting bigger and bigger.

An autonomous function of only operationally autonomous enterprise may be "keeping its wheels moving", which enables a maximum participation of its employees in a distributed part of the national income /in direct form or through incomes/.

The enterprise being an interdependent economic subject enriches itself by higher-order objectives and functions and by its open self-regulation preserving meanwhile its previously appointed autonomous objectives and functions. Higher-order objectives of the enterprise are outlined by such influence of the state through which these objectives and functions become desiderata of the economic system including: real growth, technical progress, adaptation abilities, autonomous participation in distribution of the national income and material economic resources, as well as employment.

A higher function of enterprises may be defined as their struggle for maximization of synthetic function of the objective being synonymous with a criterion of this objective.

Open self-regulation is expressed in the enterprise's ability to respond to changes in environmental conditions and in its autonomous responses visible inside and outside the enterprise, as well as in the degree of accomplishment of its synthetic objective and in effectiveness of economic activity.

## 1.2. Determinants of the environment in the enterprise's activity

In systems of horizontal ties between enterprises themselves and of vertical ties between enterprises and the institution of state /and other institutions of social relations as well/, there takes place a flow of information including: categories of servicing systems of ties, volume of gross national product and its monetary expression. All enterprises, the institution of state /and all other institutions besides those already mentioned/ together with systems of ties linking them and categories of their servicing create the enterprise's environment.

The enterprise's environment is determined, to a substantial degree, by the institution of the main operating subject in the socialist economy. This does not mean at all that it may be shaped in an arbitrary way without any criteria. Laws and causalities of political and economic relations constitute constraints and simultaneously determinants creating the environment in which enterprises operate. Laws of political relations generate evolution or force out changes in political relations themselves. The scope of changes occurring in them generates the need for, directions and depth of economic reforms. Economic relations and their laws determine the range within which specific types of the state's manipulation of enterprises will be utilized in central regulation of the economy. In this way, they also determine the very contents of systems solutions as envisaged by the reform. In their area, there also takes place verification of executed reformatory measures. Accordingly, the elaboration of reform concepts cannot take place without participation of science. Science can postulate /present in advance/ the solutions themselves or criteria of their choice, and eventually directional guidelines for this choice.

### 1.3. Quantification of the enterprise's adaptability

The enterprise's adaptability is of a two-tier character. The first tier encompasses perception of changes in conditions of the environment and adaptative responses in the regulation sphere i.e. in benefitting from the obtained rights. The second tier of the enterprise's adaptability is revealed in real /expressed in terms of value/ results of its activity obtained as a result of its adaptative responses. Regulatory measures taken by enterprises may be grasped only in a form of description. If their responses to changes in the environment can be measured outside real values, they can be measured only in time. Time of response is thus a criterion of effectiveness of the first tier at which enterprises' adaptability is revealed.

All adaptative responses and their particular types are oriented at real values in their quantitative terms and in their stream. As a result of these responses there can be effected changes in proportions of utilizing resources and in

relations between inputs and effects /in their resource and stream dimensions/. Utilizing elements of the effectiveness calculus it can be shown that enterprises are able to attain either an autonomous or higher effectiveness of their activity. The practice of their functioning points at the fact that in any conditions of their environment /with any constraints/ they accomplish their autonomous objectives. They thus display rationality of their economic choices, which are responses to the environment's impulses transferred to them "from above" and those coming from the market. The enterprise's adaptative responses are always subordinated to execution of their own functions, and they find their reflection either in autonomous or higher effectiveness of economic activity. The effectiveness dimension in which their adaptative responses will be reflected will depend largely on conditions of the environment created at present by systems solutions of the economic reform.

Interpretation of autonomous and higher effectiveness will be presented by us in the form of description. The enterprise's autonomous effectiveness is revealed in maintaining such proportions in resources streams that allow it to maximize these kinds of resources and incomes that allow accomplishment of its autonomous objectives and functions. It is mainly reflected in maximization of the wage fund or of the average pay. It may but does not necessarily have to encompass maximization of the development fund and the socio-welfare fund. It may be attained with sales returns, production volume, total and direct costs remaining unchanged or declining.

The enterprise remains within the rules of autonomic effectiveness when it ensures for itself growth of the wage fund or the average pay accompanying growth of production costs compensated by growth of sales returns independent of growth in production volume and labour productivity. Such manifestation of autonomous effectiveness may be most common but it is the fullest negation of higher-order effectiveness.

Higher-order effectiveness of the enterprise's performance is revealed in maximization of own funds /including wage fund/ remaining in a positive correlation with growth of production volume, labour productivity, and sales returns. Its consequence is a negative correlation between the above mentioned magnitu-

des and costs of production. It ensures accomplishment of the enterprise's autonomous and higher-order objectives while simultaneously it allows the enterprise to meet the requirements of general social rationality which is said to include: initiative of employees' teams, progressive changeability of production methods, minimization of production costs per unit of product, structure of production corresponding to changes in buyers' /social/ demand.

Enterprises can accommodate themselves within the rules of higher-order effectiveness only in conditions when their environment contains strict indirect constraints. They are created by central regulations and rules of free play of market forces. In the central regulation, they are ensured by guaranteeing parametric character of prices and correlating them in a consistent way with other indirect instruments and especially wages, enterprises' own and budgetary funds. The fact that enterprises obtain only autonomous effectiveness is largely due to improper and incoherent systems solutions.

The enterprise's adaptability on the real tier is reflected in two types of its effectiveness i.e. in autonomous and higher-order effectiveness. As it was indicated above, the latter type is socially desirable and striven for in systems solutions of the economic reform. Simultaneously, achieving autonomous and higher-order effectiveness /in which joint execution of autonomous and higher-order objectives is expressed/ is a manifestation of rationality of the subsystem which is constituted by the enterprise and the system which is the social process of economic activity.

## 2. The enterprise's regulatory autonomy

### 2.1. Autonomous participation in collective ownership

Social ownership of means of production at the enterprise's level is to be carried out by the self-management together with socio-political organizations /political party and trade union/. Democratic election of the leadership of these institutions is a basic condition in allowing them to play an active role in accomplishment of their functions.

Among a sample of 49 enterprises, 37 enterprises managed to elect their employees' self-management organs till 13th December 1981. In employees' opinions, these elections were conducted in a democratic way. However, after imposition of the martial law in Poland, the operation of self-management organs and trade unions was suspended. Reassumption of operation of self-management organs involved changes in their composition in 24 enterprises with these changes effected through new elections in 13 enterprises. The changes that took place in self-management organs did not remain without any influence on the character of their activity. Especially, changes in composition of workers' councils and regulations allowing for repeated suspension of their activity should be mentioned here. Consequently, active involvement of their members was calmed down, which is testified by a relatively insignificant number of conflicts between self-management organs and the management /they appeared in only 9 enterprises/. The activity of self-management organs and trade unions was focussed on issues connected with employees' socio-welfare problems, and more seldom on production problems.

Mainly as a result of political conditions and their competences, self-management organs in the examined sample of enterprises did not avail themselves fully of their legal rights.

## 2.2. Autonomy in planning reflecting autonomy in decision-making

In comparison with the planning practice in previous years, 1982 witnessed substantial restriction of application of direct commands. These commands were not completely abolished in relation to production encompassed by the government operational programmes and government orders. Data for the first six months of 1983 prove that command-type tasks were obtained by 8 enterprises /16 per cent of the sample/ with these commands coming exclusively from the organs which had founded these enterprises. Although 16 per cent of the enterprises were subject to overt command-type control, restrictions in elaboration of plans had, in fact, a wider scope. These restrictions were caused by disturbances in supplies, cooperation ties, employment,

and export to the hard currency zone. These disturbances impose constraints on enterprises' autonomy in material and regulatory sense, since they make it necessary to apply centralized allocation of raw materials and materials as well as hard currency being in deficit.

Similarly, application of the so-called "ministerial orders" by particular ministries in place of traditional commands is a disturbing phenomenon threatening the practical implementation of enterprises' autonomy in the field of planning. Moreover, during the first six months of 1983 in comparison with 1982 there could be observed /in the opinion of managerial cadres/ an unfavourable phenomenon of charging enterprises with a duty of collecting detailed information for various economic and administrative institutions.

Although overtly employed obligatory measures have an insignificant scope, the above mentioned external difficulties and reviving trends towards issuing commands to enterprises constitute an important and dangerous /since it is concealed/ source of threats for the enterprise's autonomy.

### 2.3. Institutional autonomy

#### A. Personnel changes

Appropriate selection of personnel and especially for managerial posts is of utmost importance for fulfilment of the requirements posed by the economic reform. In the enterprises under study, almost a half of all managers /48.2 per cent/ were appointed between July 1980 and September 1982. In the enterprises, in which self-management began its operations before 13th December 1981, managing directors appointed earlier on obtained approval of self-management organs. In the first six months of 1983, there were no major changes as regards positions of managing directors /they were recorded in only 3 enterprises where new directors were chosen through a contest/. A conclusion which could be drawn here is that selection of managerial personnel corresponded, as a rule, with employees' will, and this is of essential importance in promotion of desirable cooperation between directors and self-management. The

observed relative stability of managerial cadres ensures continuity of the adopted methods of management and is most favourable for their adaptability.

## B. Participation in associations of producers

Assumptions of the economic reform and legal acts defining its introduction allow for a possibility of setting up voluntary and obligatory associations of state enterprises. From among the analyzed 49 enterprises, 47 belonged to voluntary and obligatory associations by July 1983. Almost all associations are of industrial-branch character and were formed in 1982 /only 2 out of 35 were set up in 1983/.

A desire to secure an easier access to industrial procurement goods was predominant among motives behind joining associations. The instances of associations' interference with activity of enterprises were few and far between and they concerned planning and government orders /such interference was recorded in 16 per cent of all analyzed enterprises/. So far, we might rather speak about some attempts made by associations to interfere with activities of enterprises as there are no sanctions for failing to fulfil recommendations of an association. However, the very fact that such recommendations may be given is dangerous for the principle of enterprises' autonomy.

It may be expected that enterprises will be more critical in relation to their associations when a duty is introduced in 1985 obliging them to cover the costs of operation of voluntary associations from their distributable profit. Hitherto, although there are missing uniformly positive evaluations of associations' activity no enterprise has resigned from its membership in an association.

Thus, a change for autonomous activity of enterprises offered by the economic reform has not been fully utilized.

## 2.4. Motivational autonomy - changes in forms and methods of remuneration

A basic requirement posed before the wage system is that it should provide motivation to better and more productive work. The reform introduces changes, which substantially expand

autonomy of enterprises in creation of resources for employees' remuneration and their distribution.

The main constraint in this field were deductions for the State Fund of Professional Activation. These deductions changed into one of the most important instruments in steering enterprises. The steering proved, however, to be poorly effective as wages were growing faster than labour productivity. The steering force of the Fund was considerably restricted by steadily growing number of various reliefs.

In accordance with the Act No. 135 of the Council of Ministers, enterprises may fix their wage brackets on their own taking into account specific character and needs of their plants. Of special importance here are the so-called experimental pay systems being the most autonomous systems. They represent the first very distinct attempt at omitting a central intervention in fixing individual pays. Thus, there exists quite a big variety of solutions in practice as regards the fixing of wage brackets and principles of granting premiums.

Freedom in the field of pay-roll policy has not been fully utilized by all the analyzed enterprises. The widest use of this freedom was made by these enterprises which possessed at their disposal an appropriate amount of means to raise wages and salaries.

The collected materials do not show explicitly that modification of the wage system was subordinated to creation of favourable conditions for growth of labour productivity and rationalization of employment volume and structure. The modification contributed only insignificantly to improvement of labour productivity /greater successes were scored by experimental wage system than the remaining ones/. No major improvement in wage relations was recorded either.

Thus, despite increased autonomy and deductions for the State Professional Activation Fund there has not been attained the most important goal, and namely - a significant improvement in labour productivity.

## 2.5. Autonomy in employment

Enhanced autonomy in the field of employment was to eliminate redundancy in employment and make it easier for enterprises

to perform advantageous changes in their employment structure.

A drop in employment volume observed throughout the entire analyzed period /it reached its peak in 1982/ was not a result of the reform, however and it cannot be treated as synonymous with elimination of redundant labour. It was mainly caused by: earlier-than-normal retirement of some employees, child-care leaves, and fluctuation of employees. Only a few from among the analyzed enterprises achieved an insignificant drop in employment volume through a purposeful employment policy. Elimination of redundant labour was hardly promoted by application of cost-based prices and market disequilibrium as it was relatively easy to cover the incurred wage costs and ensure rise in wages. Neither were favourable changes in employment structure effected in enterprises. With a general drop in employment, its faster drop was recorded among employees employed directly in production /by 2 to 3 per cent/. Drop in employment volume and unfavourable changes in its structure all contribute to a more or less acute shortage of labour.

In these conditions, formal abolition of employment limits is not synonymous with equipping enterprises with actual freedom in their employment policies. Due to conditions in which they have to operate, autonomy of enterprises in the field of employment cannot be optimally utilized from the social point of view. Enterprises tend to utilize it for accomplishment of their autonomous objectives.

#### 2.6. Autonomy in creation and utilization of enterprises' own task funds

In accordance with assumptions of the economic reform, enterprises have been equipped with freedom in creation and utilization of the so-called "task funds". They include: reserve fund, employees' fund, and development fund. Creation of the development fund is of an obligatory character and, hence, two remaining funds are interesting when analyzing autonomy of enterprises.

In the period under survey, a predominant part of enterprises were allocating most of their distributable profit to increase of their development fund /over 50 per cent/. The

employees' fund in net profit was higher in very few enterprises /in 6 enterprises in 1982, and in only 3 enterprises during the first six months of 1983/.

Analysis of the collected statistical data allows to conclude that, on the whole, there are not observed any trends of giving preference to funds of consumption type. This is rather done in the wage policy of the enterprise. The fact that consumer interest is taken into account during distribution of profit is perhaps confirmed by a strategy applied by enterprises, which try to avoid exceeding the so-called taxation threshold being profitable for them /from the consumer interest point of view/. Linear character of income tax /introduced in 1984/ may largely neutralize a strategy of this kind.

Adaptability of enterprises is thus revealed in elastic fixing of incomes and external payments.

## 2.7. Contracting bank credits

Autonomous and self-financing enterprises have been assured an opportunity of supplementing missing resources for various purposes with bank credits. Two kinds of credits are of basic importance here i.e. investment and operating credits.

In the period under survey, there was considerably diminished the share of enterprises' own resources in financing both current and development activities, which leads to bigger reliance of enterprises on banks. This is synonymous with restriction of their autonomy. Such a danger was perceived by those who modified the reform in 1984. In order to strengthen the principles of enterprises' self-financing it is envisaged that credit will be eliminated as a source of financing current needs of enterprises and simultaneously the rank of long-term operating credit will be enhanced /it is to be repaid over a period of 12 years/.

These modifications conform with the direction of the economic reform and intentions of enterprises. They will allow to increase the enterprise's adaptability in the field of determining its expenditure and accomplishing its development objectives.

## 2.8. Pricing autonomy

Solutions in the sphere of pricing are of fundamental importance for execution of the self-financing principle. Prices are a basic economic parameter and, hence, their correctness should be evaluated through effectiveness of their influence on participants of the economic life. The parametric character of prices was to be ensured either by the Centre /superior units/ or by the market, which has not been fully carried out in practice so far. This was to be ensured for official prices and, to some extent, for regulated prices due to shortcomings in the account and recording of costs and too narrow scope of utilizing transaction prices in settling accounts with foreign trade organizations, as well as for contractual prices due to absence of market equilibrium.

The monopolistic position of producers and shortages in the market were the main cause of unilateral raising of prices, which were raised, however, only to such a level that protected enterprises from excessive taxation. This implies consolidation of cost-based prices, which are not verified in practice /thus, it is not known whether they are correct/. The market plays here a marginal role while non-market verification /done through a control system and a system of reciprocal exchange of information about components of the price between the producer and the buyer/ does not function properly in practice.

In this situation, price movements of production origin with predominance of price rises constitute an important prerequisite of inflationary processes in the economy. Growth of prices for production factors is compensated by growth of prices for sold products. Possibility of such compensation through prices excludes an influence exerted by them on selection of changing production factors, and in this way, on volume and structure of production.

In the area of prices, there was very clearly revealed the ability of enterprises to benefit from shortcomings in pricing solutions in the reform. These unfavourable phenomena have been already perceived and in modifications for 1984 it is postulated that the role of price as a parameter should be strengthened,

### 3. Evaluation of enterprises' adaptability in the real sphere

#### 3.1. Autonomous effectiveness of enterprises' economic activity

Autonomous effectiveness of economic activity can be seen in relations between dynamics in such pairs of magnitudes as: wage and production /sales returns/ funds, wage and costs fund, wage and labour productivity fund, income /distributable profit and sales returns, distributable profit and costs/. By means of the same pairs of magnitudes it is also possible to present higher effectiveness of economic activity.

Autonomous effectiveness is achieved with socially unfavourable dynamics in relations of the above mentioned magnitudes. On the other hand, higher effectiveness is achieved with a reverse and socially favourable dynamics of their relations.

In order to measure autonomous and higher-order effectiveness of economic activity in the analyzed sample of enterprises /49/ in two consecutive years of the reform, we accepted data for 1981 as base data. In 1982 and 1983, there could be observed a marked upward trend in employees' wages started at the end of 1981. While till mid-1981 wages were rising at the rate of 6 per cent, during two consecutive years of the reform they were rising by about 20 per cent. This growth rate was considerably differentiated in particular enterprises and within shorter time intervals than a year /its maximum level was as much as 60 per cent/ 1982 and 1983 witnessed also a very marked differentiation of production dynamics /in comparable prices/ and costs. Production dynamics was declining till mid-1982 when a slight upward trend began to be recorded in some 40 per cent of the enterprises. Its growth rate did not exceed from 6 to 8 per cent. Dynamics of costs was most fully convergent with dynamics of production. Such a convergence could not be observed between dynamics of production and dynamics of wages. Very often a drop in production and growth of costs were accompanied by growth of wages. Dynamics of sales returns /value of sales/ and net revenues /to be distributed/ differed from dynamics of production as well. In late 1981 and early 1982, there took place a single growth of sales returns caused

by rise in prices. After this time, dynamics of sales returns and net revenues approached dynamics of production without showing also any convergence with dynamics of wages. During the same time, there took place a marked single growth of enterprises' profitability measured as a ratio of gross and net accumulation /revenue to be distributed/ to costs. Owing to a rise in prices it was possible to eliminate a deficit in the analyzed enterprises, which in 1981 was present in 50 per cent of them. After this period, profitability was more or less stabilized and a distinct trend to equalizing net profitability could be observed. As time went by, an increasingly bigger number of enterprises /by mid-1983 about 75 per cent/ were in the lowest brackets of net profitability. Gross profitability continues to be differentiated.

Labour productivity dynamics was developing similarly to dynamics of production although some differences could be observed here. Growth of labour productivity was recorded in about 25 per cent of the enterprises. In over 30 per cent of them, periodical growth of production was accompanied by a decline in labour productivity growth rate. Labour productivity growth rate similar to production, sales returns, and profitability was shaping, as a rule, independently of employees' wage dynamics.

This brief presentation of relations between the above pairs of magnitudes indicates that enterprises achieve autonomous effectiveness of economic activity utilizing ill-adjustments and system gaps in the economic reform.

### 3.2. Level of higher-order effectiveness of economic activity in enterprises

The thesis that enterprises have attained only autonomous effectiveness of economic activity can be justified more fully by means of the correlation coefficients presented below.

## Coefficients of correlation in three chosen enterprises

No	Type of correlation	Value of coefficient			Correlation
		Enter I	Enter. II	Enter. III	
1	2	3	4	5	6
1.	Growth rate of production and net revenues /sales returns/	-0.85	0.92	0.70	+
2.	Growth rate of production /sales returns/ and costs of production	0.94	0.40	0.91	+
3.	Growth rate of production /sales returns/ and wage fund	-0.77	0.40	-0.40	+
4.	Net revenues and wage fund	0.36	0.34	-0.15	+
5.	Costs of production and wage fund	0.45	0.60	0.30	- or +

- + strong positive

- - strong negative

- + weak positive

- - weak negative

Choice of enterprises for determining coefficients of correlation was made on the basis of their profitability indices. Each of them represents 30 per cent of enterprises. The first enterprise represents a group, in which profitability grew quite considerably and deficit was eliminated. The second enterprise represents a group achieving the highest and always positive profitability. The third one represents a group attaining average profitability.

The last column shows the economically proper form of coefficients for calculated correlations. In none of the three enterprises, there was observed an explicitly proper distribution of correlation coefficients. Neither was there preserved a regularity of type-distribution of the coefficient of correlation in any of the above types of correlations. Distributions

of coefficients of correlation /despite the fact that they were calculated for a small number of enterprises/ reveal and confirm a divergence /perhaps only partial/ between autonomous and higher-order effectiveness of economic activity. On the other hand, they prove quite clearly imperfection of certain mechanisms of the economic reform concerning economic-financial systems in enterprises.

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#### Adaptacyjność przedsiębiorstw w reformie ekonomicznej

Autorzy wyjaśniają pojęcie adaptacyjności wskazując na jego dwojakie znaczenie - w stosunku do warunków otoczenia i w odniesieniu do wewnętrznych reguł działania, kreowanych przez Centrum. Rozróżnione są cele autonomiczne przedsiębiorstwa i cele wyższe oraz odpowiednio - autonomiczna i wyższa efektywność gospodarowania. Dowodzą Oni, że przedsiębiorstwa wykazały dużą zdolność adaptacyjną w obydwu wyżej wskazanych rozumieniach tego określenia. W szczególności wykazują, że warunki stworzone centralnymi regulacjami przedsiębiorstwa umiały wykorzystać dla realizacji własnych, autonomicznych celów działania. W końcowej części opracowania podjęto próbę kwantyfikacji zdolności adaptacyjnych przedsiębiorstw.