

## CHARACTERISTICS OF SELF-EMPLOYED PEOPLE IN POLAND BASED ON THE THEORY OF DAWSON, HENLEY AND LATREILLE

### CHARAKTERYSTYKI OSÓB SAMOZATRUDNIONYCH W POLSCE NA PODSTAWIE TEORII DAWSONA, HENLEY I LATREILLE

#### ABSTRACT

This paper examines the pattern of self-employment in Poland based on the theory of Dawson, Henley, and Latreille. I particularly focus on the movement of young people in and out of self-employment using available statistical data from Poland. Forces that influence whether a person becomes self-employed are the following: due to legal issues and individuals needs, people including young ones were particularly likely to move to self-employment. I also consider that previous earnings were a motivation for moving toward self-employment. Nevertheless the Polish regulations and pensions problems are influencing the probability of leaving self-employment are different across the two countries.

**KEYWORDS:** *self-employed, self-employment sector, micro-enterprise, taxation, false self-employed activity/work, living and working conditions, pensions*

**SŁOWA KLUCZOWE:** *samo zatrudnienie, branża samozatrudnienia, mikroprzedsiębiorstwo, opodatkowanie, sztuczne samozatrudnienie, działalność gospodarcza, warunki pracy, emerytura*

## **INTRODUCTION**

One of the pressing issues in the contemporary labour market is whether this market is evolving with time. This article propose to cover the sector of self-employed people in the post-communist labour market in Poland. It must be acknowledged that while many studies have been performed on economics and Poland, this is one of the first study to examine the degree of self-employment in Poland. This was done across Poland and with a sample of self-employed business people aged from 25 to 50. The article is splitted in three categories. The first one is related to the methodology and the theoretical framework. The second consists of a definition of self-employed people. The third one is dedicated to the specificities of the Polish self-employed market.

## **METHODOLOGY AND APPROACH**

I used several ways of collecting information. Firstly, I proceed to a carefully reading of hypothesis of Dawson, Henley and Latreille. Secondly, in order to assess the theory of these three researchers, questionnaire data were collected as part of a larger project seeking to understand the behavior of self-employed people, whose main activity is in Poland. Thirdly, I utilized archival research and interviews for the purpose of the preparation of this article. I also used materials available through the Central Statistical Office of Poland and European research centers. In other terms, I utilized economic, legal, and statistical data of the self-employment sector. Lastly, I would like also to underline that I considered my own experience as I've been self-employed for more than four years and thereofre had a realistic approach of the issue discussed.

## **THEORETICAL BACKGROUND**

According to Dawson, Henley and Latreille, three major british researchers of the Swansea University, entrepreneurship is a topic of research which has drastically grown over the last years. On one side, new companies are creating new jobs, on the other side, due to societal changes, entrepreneurship is viewed as a key transmission mechanism between the creation of knowledge and economic growth. Furthermore, self-employment is an important occupational option for many in the labour force (Dawson, Henley, Latreille, p. 2).

These three exceptional authors also recognized that nearly all cross-sectional studies, using individual-level data, suggest that motivations for choosing self-employment are dominated by positive factors. However studies which sample only the self-employed suffer from a potential selection bias, which may lead to differences between stated (ex-post) motivation and actual (ex ante) motivations. That is, people may be reluctant to admit to negative factors ex post, preferring to provide information which is consistent with revealed behaviour. This potential caveat must be considered. Dennis (1996), reporting findings from a survey of around 3000 new business founders in the USA in the late 1980s, suggests that people enter into self-employment because they want to and not because of lack of available alternatives (Dawson, Henley, Latreille, p. 5).

According to Feldman and Bolino, People are choosing self-employment considering that the independence/freedom is very important for them, being self-employed consists of an escape from a regular company (Feldman, D.C., & Bolino, M.C., p. 53). The next factor considered is the 'work-family balance' and 'flexibility of hours'. Men considered that "challenges" and "cash arguments" are also important reasons. They do also consider that their level of satisfactions is higher than in a regular company. Finally, findings showed that the key drivers are the following elements: self-realisation, financial success, innovation, independence, and lack of hierarchy (Dawson, Henley, Latreille, p. 12).

According to Benz and Frey, self-employed people do not only care about instrumental outcomes, as is usually assumed in economics, but also value the processes and conditions leading to outcomes. Both of them also consider that self-employed are substantially more satisfied with their work than employed persons. We document this relationship for 23 countries and show that the higher job satisfaction can directly be attributed to the greater autonomy that self-employed persons enjoy (Benz, M., & Frey, B.S., p. 173).

## **SELF-EMPLOYED PEOPLE**

By definition, self-employment is characterized by a specific and complicated relationship between an employee and an employer. This relationship includes entrepreneurs who are equal partners, at least in theory.

An employee is not subordinate while an employer does not specify the time and place in which work is to be performed even though a contract concluded between entrepreneurs may include detailed provisions on the method and time in which services are to be performed.

According to Czech researchers, the self-employed display significantly differentiated following characteristics (Průša, Baštýř, Brachtl, p. 25):

- they operate in considerably different and variable social and economic conditions; that results in individuals having diametrically different economic situations, competitiveness and attained incomes, earnings and profit;
- they have a specific social status; a fundamental and stable proportion forms the basis of the middle classes;
- they significantly influence the scale of employment and the flexibility of the labour market in the national economy (Eans, Bojanovic, p. 16).

Statistically speaking, as of 2015, there are around 1,1 mil self-employed people in Poland, interestingly 25% of self-employed have an additional position (Anna Tarnawa, p. 6). On the other side, according to the Polish researcher, Dominika Bąk-Grabowska, almost 19% of people employed in Polish economy represent self-employment which is the average in Central Europe in post-communist countries. For example in comparison, self-employed workers make up 20% of the total employed population in Hungary and self-employed workers without employees represent around 10% of the total number of employed people in the national economy of Slovakia. These differences in data underline the fact that not everyone is indicating his statute of self-employed and that people are very flexible toward it and changing their professional position and activity.

In Poland as of 2010, self employed people work in the following industry: sales, services (education, financial services, entertainment) and to a lower extent, in the industry and the construction industry (Anna Tarnawa, p. 8). It must be underline, that even assessing in which industry people are working is difficult due to the fact, that when an individual is choosing its main activity at the launching of his company, he may choose practically an unlimited number of activities which can be totally different from the core business.

Basically, entrepreneurs are choosing a core activity (which they don't have the obligation to follow) and unobligatory additional activities (which can be the key business of the company).

Therefore, a self-employed person can often organize their work at their own discretion. A third party can be entrusted with the work which is supposed to be performed by the self-employed person unless the parties have forbidden that in a relevant provision of the contract. An indisputable advantage of self-employment is the possibility to perform services for more than one entity but the parties can exclude such a possibility in their contract.

### **SELF-EMPLOYMENT IN POLAND**

Self-employment is most frequently identified with running a business by a natural person. In Polish system the procedure of a business registration is free of charge (only filling in a VAT -Value Added Tax- return is subject to a fee on a monthly or quarter basis), there is definitely no obligation of an initial capital; there is a personal responsibility for all receivables and liabilities resulting from running a business. Therefore, it represents the form of individual entrepreneurship which legal persons cannot take advantage of. The employment of self-employed people is also facilitated by the Polish law. There is also no agreement regarding the problem of employing workers by the self-employed. In such circumstances the person running his/her own business takes up the role of an employer (in case of employment contract) or a contracting party (in case of civil law contracts) (Bąk-Grabowska, p. 109).

### **CHARACTERISTICS OF SELF-EMPLOYED IN POLAND**

According to the Polish researcher, Dominika Bąk-Grabowska, almost 19% of people employed in Polish economy represent self-employment. It is a diversified group, comprised of individuals for whom self-employment became an alternative form of cooperation with an enterprise in which they used to work in the past, or could continue working based on employment contract. The majority of self-employed people are men. Self-employment has been analyzed as one of the non-standard employment forms, apart from such options as commissioned employment or unregistered employment. The focus is on analyzing the phenomenon of self-employment from the

perspective of human resources management process carried out in an outsourcing enterprise and cooperating with a self-employed one. The conducted research allows for presenting the specific nature of this process as well as its basic characteristics. The majority of respondents indicated that the solutions applied towards them are different from those used in case of regular workers. Moreover, in comparison to other groups of workers, employed based on atypical employment forms, the self-employed indicated positive aspects of such work much more often.

The choice of self-employed employees is guided by several reasons. First due to the asymmetric nature of the labour market in Poland, more and more people tend to be self-employed through sole proprietorship (self-employment, called “*samozatrudnienie*”). Secondly, more and more employees who change the way of performing their work duties and start to provide services as self-employed natural persons. Self-employment becomes increasingly popular because of high labour costs. These self-employed people are create “Sole Proprietorship companies” (*działalność gospodarcza*) being in touch with the Central Register and Information on Economic Activity (CEIDG – *Centralna Ewidencja i Informacja o Działalności Gospodarczej*) with no founding capital.

Table 1.

**Self-employment rate in Poland**

		2009	2010	2011	2012	2013	2014	2015
Incidence of part-time employment	%	9.3	8.7	8.7	8.3	8.0	7.7	7.1
Self-employment rate: total employment	%	22.9	22.7	23.0	22.9	22.4	21.8	21.4
Self-employment rate, men: male employment	%	25.0	24.9	25.3	25.3	25.0	24.5	24.3
Self-employment rate, women: female employment	%	20.4	20.1	20.1	19.8	19.2	18.4	17.7

Source: Central Statistical Office of Poland

According to Elzbieta Krynska, self-employed wages are in any case subjected to the regulation on the minimum wage and an employer is not

obliged to pay remuneration on a monthly basis, furthermore self-employed may feel as second-class workers with no real privileges (Kryńska, p. 4). Remuneration is usually paid in arrears after a service has been performed. It is, however, possible to pay it on a monthly basis. Provisions of a contract concluded between a self-employed person and an employer are not protected analogously to provisions of an employment contract. In the case of such a contract, labour law provisions on notice periods and a necessity to justify termination of a contract are not applicable. Entrepreneurs can define conditions of terminating their cooperation at their own discretion. An employer who hires a self-employed person is not obliged to pay them overtime or to cover costs of their business trips. In addition to that, such an employer is not limited by regulations on stability and protection of an employment relationship and does not have to respect rights arising from an employee's parenthood. A self-employed person is not entitled to paid holidays, bonuses or benefits. At the difference of non-boat communists countries, the value of autonomy is appreciated in post-communist countries, but is not exclusive. Some people go back to their initial position as they attached a certain importance to collectivist decision-making. It's especially true for people older than 50 years.

Table 2.

**Self-employment rate and insurance contribution in Poland**

Data are in PLN	2016	Preferential contribution
Social Insurance Contribution	772,95	465,28
Health Insurance Contribution	288,95	
Work Fund Contribution	59,16	

Source: *Polish Social Insurance*

The basic costs affecting self-employed persons in Poland are described in the following table, they are mainly related to Polish Social Insurance (ZUS) and tax contributions. Regarding social insurance, when a person is starting its own business he doesn't have to pay the full contribution to the Polish

social insurance but pay something that we may consider as a preferential contributions. For year 2015 the preferential contribution was at the level of 445,42 PLN. It's around 40% less than the normal rate which is 817,40 PLN. The maximum period of the concession is 24 calendar months, calculated from the date of commencement of business.

It must be underlined, that according to Polish Regulations, "The rates of the pension, disability and sickness insurance contributions are identical for all insured". Amounts are indicated below:

- 19.52% of the contribution assessment base – for the pension insurance (the contribution payer and the insured pay equal amounts: 9.76% each),
- 8% of the contribution assessment base – for the disability insurance (the contribution payer pays 6.5% and the insured pays 1.5%),
- 2.45% of the contribution assessment base – for the sickness insurance (the insured pays the full amount)" (Social Security in Poland, p. 12).

On the other-side, due to the fixed level of social insurance contribution, people which generous earning (more than the official average – pay in reality low social contributions). In the Polish case, The level of social insurance contribution is in any cases dependant from the level of sales. It's highly unequal in comparison with people with low wages. Concretely speaking, it does mean that somebody who is earning 20,000 PLN or 3,000 PLN is paying the same social insurance contribution to the Polish State. In comparison in other countries, auto-entrepreneurs are paying social security contribution as a percentage of their turnover. These rates may vary from 13 to 25% (as a percentage of turnover), and to 45% (of net profits).

## **TAXATION FOR SELF-EMPLOYED PEOPLE IN POLAND**

This section introduces to the process of reporting earnings and paying income tax on activity's profits in Poland. In Poland there are two main categories of tax scales. The classification depends on the annual income of the considered business. If a company get less than 85 528 PLN, they will pay 18% tax based on their profit, for any excess, the company have to pay 32% based on their profit. Until a turnover of 3091 PLN, companies do not pay taxation.



Table 3.  
Taxable base in Poland

Taxable base (in PLN)		Tax
More than	Up to	
	85,528	18 per cent minus tax-reducing amount of PLN 556.02
85,528		PLN 14,839.02 + 32 per cent of the surplus over PLN 85,528

Source: Polish Ministry of Finance. Data as of the 31<sup>th</sup> July 2016

## SOLE ENTREPRENEURSHIP AND REDUCTION OF COSTS

Due to high social contributions and proportionally to an important part of the population with a low revenue (even being self-employed), many entrepreneurs are trying to reduce their fixed costs using automatic accounting softwares which are dedicated to new sole entrepreneurs entities. In Poland, there are many software packages on the market that allow young businessmen to control records without an accounting degree. Some of them, (such as bookkeeper, Ifirma, Infakt, Wfirma,...) are existing since a few years and are gaining more and more customers. A regular accountant (for around 10 bills a month) will cost around 45 euros (200 PLN) when in comparison a software will cost around 10 euros a month. Therefore many self-employed people are saving around 400 euros a year. Some people are also launching their companies in United Kingdom, Latvia, or Slovakia as the social insurance contribution is much more lower than in the case of Poland.

## CONCLUDING REMARKS

Finally it must be acknowledged that the characteristics of self-employed people in Poland based on the theory of Dawson, Henley and Latreilledo do not fit with the Polish reality. These three authors consider that self-employment is a choice (which is true in western liberal and non communist countries) and not an obligation. First, due to the unprotective nature of the Polish Labor market, self-employed in Poland are forced to be self-employed by their employers. Secondly, due to law regulations in Poland regarding insurance, companies tend to employ much more self-employed people instead of

employing them directly<sup>1</sup>. Therefore on a long-term approach, this may create severe pensions problems. Many of self-employed Poles are not saving into a pension. These self-employed people are rather investing everything into growing their business, rather than into a pension. This situation is very similar to what is happening in other post-communist countries such as Hungary and Slovakia where employees remained unprotected by social regulations and by their respective weak states.

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## Endnotes

<sup>1</sup> Forcing self-employment (2011), <http://www.goldenline.pl/forum/939636/zmuszenie-dosamozatrudnienia/s/2>, access 8.11.2011.

