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Microeconomic Effectiveness of Privatised and State-Owned Enterprises in Poland in the Years 1991–2003

Abstract

The paper focuses on a comparative analysis of performance of two kinds of enterprises, with respect to their ownership structure: privatised and state-owned ones. The time-range of the analysis covers almost the whole period of transition process in the Polish economy: since 1991 to 2003. The analysis refers to two main areas of the enterprises' activity: analysis of financial standing and of investment activity. The analysis of financial standing includes, among all, the investigation of profitability ratios, liquidity ratios and the cost ratios. Investment activities are investigated with the use of investment expenditures to total turnover ratios. The paper ends up with some conclusions on the effectiveness of performance of the investigated groups of enterprises.

Introduction

The analysis of microeconomic effects of privatisation is based on financial ratios calculated and presented by the Central Statistical Office (CSO). The investigation refers to all the enterprises that revealed their financial data. The following groups of enterprises have been distinguished:

- Enterprises privatised through capital method of privatisation (indirect privatisation). This method consists in selling the enterprises' shares (originally owned by the State Treasury) in a form of public offer, negotiations or invitation of tenders. This form of privatisation widely includes foreign capital share.

- Enterprises subject to direct privatization, including foreign partnerships and employee partnerships. This way of privatisation lies in controlling all the assets of an enterprise in a form of sale, contribution of shares to a partnership or leasing. Privatisation process takes form of negotiations or invitation of tenders.
- Enterprises included into the National Investment Funds (NIFs) in the process of mass privatization.
- Commercialised enterprises that take form of share partnerships, but are still owned and controlled by the State (the State holds 100% of shares).

Presented statistical data refers to economic-financial standing of enterprises and their investment activity.

1. Analysis of financial standing

Changes in structure of sales turnover (table 1) in the years 1992–2003 in the investigated set of enterprises indicate that:

a) Privatisation process in Poland was still going on, but its rate was relatively slow.
b) Analysis of changes in structure of sales turnover provides evidence that share of enterprises subject to capital privatisation (especially those privatised with share of domestic capital) was rapidly growing. High dynamics of enterprises privatised with share of foreign capital was also observable.
c) Share of employee partnerships grew slightly in the early nineties, and then decreased inconsiderably (after 1995).
d) Share of enterprises incorporated into NIFs was diminishing dramatically in the whole investigated period.
e) Position of commercialised enterprises in structure of sales turnover was worsening rapidly.

Ratio of net turnover profitability (relation of net financial profit/loss to total turnover) is an essential synthetic measure of microeconomic efficiency of enterprises. Data referring to the investigated groups of enterprises is presented in table 2. It is evident that:

a) Capital privatisation comprised those enterprises that were the most profitable at the early nineties. This mainly referred to the enterprises sold to domestic investors.

b) Employee partnerships were characterised by relatively high profitability.

c) Mass privatisation referred to enterprises with relatively low profitability.

d) Commercialised enterprises (owned by the State) yielded the worst (negative) profitability.

Table l. Structure of turnover in the years of 1992–2003 (in %)

Years	State-owned enterprises		Privatised enterprises						Total: stste-owned and privatised
	total	including: commer-cialised enterprises	total	Capital privatisation: total	Capital privatisation including: with foreign capital share	NIF	Direct privatisation: total	Direct privatisation including: with foreign capital share	
1992	61.2	59.3	38.8	8.3	4.8	19.4	11.1	1.2	100
1993	59.7	59.3	40.3	11.3	5.8	17.3	11.7	1.2	100
1994	62.3	61.4	37.7	13.5	6.6	13.8	10.4	1.3	100
1995	59.5	58.8	40.5	16.2	7.7	12.9	11.4	1.3	100
1996	57.1	56.4	42.9	17	8.9	13	12.9	1.2	100
1997	49.9	.	50.1	23	10.3	12	15.1	1.3	100
1998	49.5	.	50.5	23.7	11.4	10.9	15.9	1.5	100
1999	48.3	35.5	51.7	28.1	11.3	9.1	14.5	1.6	100
2000	47.6	34.0	52.4	29.5	12	8.5	14.4	1.7	100
2001	48.5	34.8	51.5	30.5	13.6	7.8	13.2	1.6	100
2002	46.4	33.1	53.6	32.6	14.7	7.6	13.4	1.7	100
2003	44.0	29.7	56.0	33.8	16.1	8.1	14.1	2.0	100

Source: own ca1culations based on: *Prywatyzacja przedsiębiorstw paristwowych,* GUS, Warszawa, guidebooks for the years 1992–2003.

A conclusion may be drawn that pirvatisation process referred to enterprises with relatively good financial standing. Those of poorer financial position still belonged to the State (commercialized enterprises).

In the years of high dynamics of economic growth (1994–1997), differences in profitability between the particular groups of enterprises were distinctly diminishing. Profitability of commercialised enterprises was growing relatively faster at that time.

Economic breakdown that started in Poland in 1997 and lasted to mid 2003 resulted in repeated relative differentiation of profitability. This became a test for the particular groups of enterprises of their resistance to worsening the external economic conditions and of their ability to maintain hitherto market position.

Table 2. Net turnover profitability ratios in the years 1991–2003 (in %)

Years	State-owned enterprises		Privatised enterprises					
	total	Including: commer-cialised enterprises	total	Capital privatisation: total	Capital privatisation including: with foreign capital share	NIF	Direct privatisation: total	Direct privatisation including: with foreign capital share
1991	-5.59	-5.66	1.07	4.06	2.04	0.76	1.84	1.32
1992	-5.15	-5.50	1.58	5.62	2.59	0.21	2.74	3.46
1993	-3.08	-3.12	1.78	6.92	5.11	-0.90	3.31	4.32
1994	1.49	1.48	4.40	5.99	3.53	1.80	3.16	3.58
1995	0.95	0.95	3.71	6.03	4.36	-1.36	2.59	2.73
1996	-0.41	-0.42	2.06	3.57	2.28	-2.26	2.74	0.92
1997	0.06	0.04	2.97	3.82	1.98	0.02	2.67	0.74
1998	-6.39	-6.49	1.85	3.29	2.16	-2.04	1.83	-0.08
1999	-6.20	-6.27	1.14	3.02	2.92	-4.31	1.16	0.81
2000	-3.15	-3.19	1.16	3.76	1.27	-3.16	-1.53	2.38
2001	-1.81	-1.82	-1.26	-0.39	-1.87	-4.43	-1.80	2.32
2002	-2.61	-2.60	0.68	2.37	1.97	-2.44	0.14	3.50
2003	.	9.8	.	3.9	3.1	0.6	1.9	3.6

Source: CSO data.

Commercialised enterprises proved to be the less resistant. Dramatic decrease in profitability in this group of enterprises happened in 1997 and lasted to 2002. From amongst privatised enterprises, the worst financial standing was observed in those included into NIFs. Like in a case of commercialised enterprises, also in this group of firms economic breakdown took place already in 1998 and was continued to 2002. Symptoms of improvement that appeared in 2003 were the less meaningful in comparison with other groups of enterprises.

Two groups of privatised enterprises proved to be the most resistant to negative external shocks. They were:

1) Enterprises subject to capital privatisation, with participation of both domestic and foreign investors. Clear deterioration of their financial results took place only in 2001. As early as in the next year situation changed for the better.
2) Enterprises privatised directly, with share of foreign capital. In this case, poor financial results became visible in the years 1996–1997, and were the worst in 1998. Only the year 2000 brought significant improvement in this area.

Till 1998 employee partnerships managed to maintain relatively good financial standing. However, the succeeding years brought significant deterioration of their financial results (the worst situation appeared in the years 2000–2001). Process of improvement was slow and in 2003 a position of employee partnerships compared to other groups of enterprises was still poor (it was better in comparison with NFI only).

Exceptionally high profitability of commercialised enterprises in 2003 requires some comments (it was the highest from amongst all groups of enterprises, while in 2002 it was the lowest). This was most of all due to higher worldwide demand for coal and steal[1].

Table 3. Total cost ratios in the period 1991–2003 (in %)

Years	State-owned enterprises		Privatised enterprises					
	total	including: Commer-cialised enterprises	total	Capital privatisation: total	Capital privatisation: including: with foreign capital share	NIF	Direct privatisation: total	Direct privatisation: including: with foreign capital share
1991	95.28	95.32	89.50	86.34	89.15	88.76	88.53	89.77
1992	98.32	98.35	91.97	88.29	91.79	93.44	92.72	91.02
1993	96.58	96.58	91.31	86.25	91.10	94.99	92.68	90.40
1994	96.36	96.36	92.11	89.55	93.86	94.96	93.53	91.56
1995	67.77	67.69	66.92	67.65	65.00	71.50	73.20	69.74
1996	71.96	71.90	64.16	66.66	67.04	62.17	70.06	71.65
1997	92.13	92.14	86.57	84.01	87.9	90.89	88.11	85.54
1998	96.51	96.55	86.97	85.01	87.79	92.38	85.54	88.26
1999	93.69	93.68	87.78	83.55	87.5	93.72	89.52	87.37
2000	89.97	89.92	88.81	84.28	87.73	91.89	93.35	86.97

[1] These sectors (coal mining and metallurgy) have high share in production of commercialised enterprises.

2001	86.72	86.65	89.56	85.87	90.37	92.90	92.45	86.80
2002	102.04	102.04	98.25	96.19	96.99	101.99	99.03	95.42
2003	.	87.3	.	94.0	94.9	98.4	96.9	94.6

Source: CSO data.

Growth in prices of mentioned products enabled the commercialised enterprises to acquire unusually high profitability in 2003 (the highest in the whole investigated set of enterprises). Analysis of ratios referring to total cost level[2] (table 3) supports accuracy of remarks presented on the grounds of profitability analysis. It is worth mentioning that all investigated enterprises obtained the best financial results (cost ratios) in the years 1995–1996, in a period of the most favourable external macroeconomic conditions. The worst cost ratios were in the year 2002, when external macroeconomic conditions were clearly unfavourable.

The above observations indicate that internal conditions (such as ownership forms and their consequences: for example intensity of restructuring processes) were of limited importance for financial standing of enterprises. Impact of external (macroeconomic) conditions was the most significant.

Table 4. Share of state-owned and privatised enterprises yielding net profit in the years 1992–2003 (in %)

Years	State-owned enterprises		Privatised enterprises					
	total	including: Comer-cialised enterprises	total	Capital privatisation		NIF	Direct privatisation	
				total	including: with foreign capital share		total	including: with foreign capital share
1992	54.29	53.80	71.65	74.33	77.08	69.85	75.70	78.43
1993	63.04	62.53	68.77	68.44	72.92	59.41	75.09	72.55
1994	71.87	71.78	74.81	74.75	75.82	69.38	78.99	74.47
1995	73.19	72.93	74.45	77.60	77.55	59.54	80.29	68.63
1996	72.84	72.06	74.83	80.33	76.29	48.23	84.14	64.00
1997	64.38	62.98	76.31	75.99	68.37	63.64	81.78	62.00
1998	58.03	56.84	70.74	66.67	63.54	57.70	78.40	59.52
1999	48.51	47.00	64.61	62.96	69.79	44.84	74.39	55.10
2000	60.54	60.19	61.61	59.04	60.42	48.11	68.71	57.14
2001	54.95	55.47	56.61	51.90	49.47	42.47	63.52	55.32

[2] This is relationship of overall activity to total turnover.

2002	45.61	45.94	61.66	61.34	60.23	49.87	67.55	60.00
2003	.	60.5	.	67.3	63.0	56.7	74.0	70.5

Saurce: CSO data.

Share of enterprises that did not manage to yield net profit is alarming in all ownership groups of enterprises (table 4). This share is the highest both in NIFs and in commercialised enterprises (over 50% in some years). Distinct changes of this share in particular years are visible. This means that significant part of enterprises in each ownership group (probably majority of them) is characterised by very low profitability. Still, there are little enterprises being conspicuous by good and stable financial standing.

Ability to pay current liabilities in due time (financial liquidity) is an important factor of the enterprises' economic condition. Table 5 presents financial liquidity ratios, e.g. relation of short-term receivables to short term liabilities. In 1991 the ratios were low and quite similar in all the groups of enterprises, however, the lowest in NIFs and commercialised enterprises, the highest in partnerships with foreign capital share (capital privatisation) and in employee partnerships (direct privatisation).

Table 5. Financial liquidity ratios in the years 1992–2003 (in %)

Years	State-owned enterprises		Privatised enterprises					
	total	including: commercialised enterprises	total	Capital privatisation: total	Capital privatisation including: with foreign capital share	NIF	Direct privatisation: total	Direct privatisation including: with foreign capital share
1991	11.31	11.24	11.98	15.84	11.64	8.13	15.64	14.44
1992	11.53	11.45	14.09	19.62	17.86	10.75	17.79	40.89
1993	14.38	14.27	18.84	24.53	21.61	12.93	29.83	46.01
1994	19.77	19.69	34.28	44.04	31.63	19.65	33.63	42.30
1995	21.75	21.71	31.38	41.37	29.97	12.82	27.82	43.03
1996	18.70	18.70	26.38	27.98	23.77	15.88	27.73	33.77
1997	21.73	21.74	26.14	29.06	22.20	21.91	22.24	24.29
1998	13.67	13.61	28.90	40.47	23.55	17.91	18.16	19.44
1999	15.45	15.40	19.89	23.79	21.68	14.29	19.91	20.42
2000	16.59	16.59	21.65	25.50	22.63	12.01	20.52	28.48
2001	17.00	17.01	23.92	29.74	30.52	13.43	21.96	35.40

2002	12.61	12.63	16.40	21.10	25.65	10.64	18.85	31.38
2003	.	28.8	.	30.3	41.6	13.2	32.6	31.4

Source: CSO data.

In the following years liquidity ratios were increasing, especially in the 1994–1997 period. Since 1998 (in some cases since 1999) a downward tendency has appeared, with especially low level of the ratios in 2002. In 2003 liquidity ratios improved meaningfully in all groups of enterprises. Additionally, differentiation of the ratios between particular groups of firms became more and more distinct (differentiation process started in 1997, when differences in the levels of liquidity ratios were the lowest in the whole investigated period). In the final year of investigation (2003) the highest levels of liquidity ratios were observed in enterprises privatised indirectly, with participation of foreign investors, while the lowest in enterprises included into NIFs.

2. Investment activities

There is no sufficient data expressing investment expenditures in enterprises according to their ownership form. Information contained in table 6 allows for formulating the following remarks:

a) In the years 1995–1997 (sometimes in 1998) investment activity in majority of enterprises was relatively high. However, in the succeeding years it became to deteriorate. The lowest investment expenditures appeared in the years 2001–2002. Similar situation took place in 2003. Slight increase in investment expenditures was observed in the first half of 2004 only. This means that enterprises suffer shortage of financial sources for restructuring and development. In fact, most of enterprises have obsolete production equipment (machines, tools, etc.), high costs, and low technical level of products. As a consequence, their competitive position is difficult and unstable, especially in confrontation with foreign competitors, including those from the EU.

b) In the period of high rate of economic growth (1995–1997/8) both the enterprises privatised with share of foreign capital and with participation of the Polish strategic investors bore the highest investment spending. However, in recent years investment was dramatically diminishing also in those groups of enterprises.

c) In commercialised enterprises, in NIFs as well as in employee partnerships a level of investment expenditures was low, but relatively stable.

In all the ownership groups of enterprises relationship between deterioration of external economic conditions and reduction of investment activity is visible. On the other hand, only in some ownership groups there exist relationship between improvement in external economic conditions and increase in investment activity. This refers to enterprises privatised with share of both foreign and domestic capital (indirect privatisation) and to enterprises privatised through direct privatisation with foreign capital. Such relationship lacks in: 1/ commercialised enterprises, 2/ NIFs, and 3/ employee partnerships.

In cases of 1/ and 2/, this is connected with low profitability that characterises activity of mentioned enterprises also within a period of good macroeconomic performance. In Poland a share of own financial sources in financing investment expenditures has been high (about 80%) for many years. The enterprises' responsiveness to changes in the interest rates on credits has been relatively low.

Case 3/ demands different explanation. In employee partnerships the employees, as co-owners, play an important role in management process. At the time of better macroeconomic situation they exert pressure to a part of additional profit to increase wages. When external conditions deteriorate, they aim to keep hitherto level of wages (or the rate of wage growth).

Table 6. Investment expenditures in relation to total turnover (in %)

Forms of enterprises	1995	1996	1997	1998	1999	2000	2001	2002
Commercialised enterprises	6.8	6.4	11.9	7.4	8.6	7.3	6.8	6.2
Privatised enterprises								
- capital privatisation	25.3	22.4	18.7	17.2	15.1	12.7	10.4	7.5
including: with foreign capital share	15.4	12.1	12.0	7.6	9.6	9.7	5.9	5.9
- included in to NIFs	4.6	3.8	6.6	8.1	6.4	6.1	5.2	5.2
- direct privatisation	8.0	6.1	8.2	8.9	6.5	4.3	3.7	3.8
including: with foreign capital share	20.1	17.9	23.1	13.8	11.7	8.1	8.9	5.8

Source: own calculations based on CSO data referring to investment expenditures and based on CSO guidebooks: *Privatisation of state-owned enterprises,* the years 1995–2002.

Low investment activity results from the following factors:

a) pessimistic evaluation of development possibilities of the Polish economy;

b) low level of domestic demand;

c) very limited possibilities of assigning the enterprises' own financial sources to investment activity;

d) political instability that causes misgivings referring to unfavourable changes of the economic system;

e) anxieties, that after accession to the European Union economic situation of the Polish enterprises will deteriorate as they will not be able to gain competitive advantage on the common market;

f) changes of the economic policy reducing investment incentives (for example gradual elimination of investment reliefs).

Negative impact of the above factors (a, b, c, and e) has been weakening for a few months. Factors connected with economic policy (d and f) have been still of much importance for the enterprises' investment activity.

3. Concluding remarks

1) Privatisation process in Poland has been relatively slow. Among other things, this is a result of low efficiency of mass privatization (only 512 enterprises were included into NIFs, a small part of the whole set of state-owned firms).
2) Profitability of privatised enterprises has been diminishing for a few years. Differences in profitability between privatised and state-owned enterprises have been decreasing as well.
3) Diminishing profitability of privatised enterprises is an evidence to ineffective restructuring. Restructuring is not enough to let the enterprises maintain their competitive advantage, especially in the period of slowdown in the economy. It is not certain then, that higher profitability of privatised enterprises testifies to high efficiency of privatisation.
4) The highest microeconomic efficiency may be observed in the enterprises privatised through capital method, particularly in those with foreign capital share. Their advantage in this area was the most significant at the beginning of nineties. This may mean that in the succeeding years they weakened their restructuring activities or that enterprises from other ownership groups might to increase it as well.
5) Diminishing differences in profitability between privatised and state-owned enterprises may point to some restructuring efforts undertaken by a part of state-owned enterprises.

6) Part of state-owned enterprises has not been out of the market although they have not yielded net profits for many years. This is due to public support that takes many forms, for example debt reduction. For many firms that lost their financial liquidity (ability to pay liabilities-taxes, insurance fees, interests on credits, etc.) the state proposes postponement or remittance of debts. This way the state keeps the inefficient enterprises alive although most of them do not have chance for improvement their competitive and market position. This policy is to prevent rapid growth in unemployment (the unemployment rate in Poland amounts to almost 19%) and drop in production as well. On the other hand, however, this creates illusion that the state will not let the enterprises to go into bankruptcy. As a result, this weakens investment incentives and supports unfair competition.
7) From amongst the whole set of investigated enterprises, the less effective were those included into NIFs. Economic weakness of the above-mentioned enterprises was the most clearly visible in the years 1999–2001, the period of economic slowdown in Poland. This may become a base for negative evaluation of mass privatisation concept in Poland.
8) Employee partnerships were characterised by relatively high efficiency (especially till 1998). This might become evidence that popular opinions on weakness of this method of privatization (shortage of financial sources, ownership dispersion, preferring current consumption rather than investment) did not come true. However, these firms appeared to be not resistant to worsening the economic conditions that took place after 1998.
9) In the Polish economy a role of internal factors of enterprises' competitive advantage (for example restructuring efforts) has been diminishing, while role of external ones (connected with unfair competition) has been growing. This is unfavourable tendency as it hinders gaining expected advantages resulting from complex and deep restructuring. At the same time, it awards those enterprises that focus on illegal activity or that use defects both of the law and of the control institutions. The most common forms of unfair competition are as follows: avoiding of paying taxes and tariffs, price understatement, lack of compliance with technological standards, long-lasting processes of bankruptcies, public support (donations).