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*Bożena Klimczak, Bożena Borkowska, Andrzej Matysiak,
Grażyna Wrzeszcz-Kamińska*

MICROECONOMIC PHENOMENA ACCOMPANYING THE PRIVATIZATION PROCESS OF STATE-OWNED ENTERPRISES (RESULTS OF RESEARCH OF 1990-1993)

The results of privatization of state enterprises are discussed in the paper on the basis of researches. The goal of these researches was to answer the question: Does privatization of state enterprises promote efficiency within the firm? The answer is, that microeconomic efficiency doesn't depend directly on privatization. There are some other factors, such as the kind of manufacturing, the form of competition, and the method of privatization.

1. INTRODUCTION

In the economic programme issued in October 1989, the Polish government declared „ownership transformations adapting the structure of ownership to that prevailing in highly developed countries” (Rząd ogłosił program, 1989). The legal basis for these transformations was the Privatization of State-owned Enterprises Act accepted by Parliament in July 1990 (*Ustawa o prywatyzacji...*, 1990). The premise of activities aiming at changes in ownership structure undertaken in accordance with this declaration is the assumption that ownership is one of the determining factors of an effective economy. This assumption may be understood positively or negatively; certain forms of ownership induce better economic efficiency, others do not have any influence upon efficiency or even inhibit it.

The objective of the research undertaken by the authors was to verify the hypothesis of the positive influence of private ownership upon economic

results. The research covered privatized enterprises in the Wrocław province in 1990-1993 and included a comparison of their economic condition before and after privatization. Because of the relatively long period of privatization it was not possible to apply the *ceteris paribus* assumption, that is why also external conditions of privatization, like the methods and length of the privatization period, the economic recession and market structures in which the privatized enterprises worked, were also taken into consideration.

The paper presents the results of that research, which however do not allow a definite conclusion that private ownership is a sufficient condition of improvement in economic efficiency. The results of privatization of the state-owned enterprises strongly depend upon the economical environment, especially on:

1. degree of differentiation of forms of ownership in a given industry, operation of both state-owned and private enterprises in one industry potentially arrests the development of privatized enterprises, as they have stronger financial constraints,

2. forms of competition in a given market; the weaker the competition, the better the economic results of privatized enterprises, because their financial constraints become comparable with the constraints of state-owned enterprises,

3. economic situation; privatization carried out in a period of recession did not result in an improvement of the economic effects of enterprises,

4. methods and time period of privatization; methods which make the time period of privatization longer, also multiply the negative external influences on economic effects and delay the activation of an efficient mechanism of enterprises' selection and capital allocation.

2. METHODOLOGICAL ASSUMPTIONS

The influence of form of ownership upon economic effects has already been examined in countries of highly developed market economies, where both private and state-owned enterprises operate (Savas 1992). The research can be divided into two basic streamlines:

1. institutional streamline, where the institution of ownership is being examined; different forms of ownership are compared with the means of a theoretical experiment and reactions of economical subjects resulting from their title to the object of ownership are determined. A typical representative of that streamline is the Chicago school of property rights,

2. empirical streamline, where each case of state-owned enterprise transformation is examined in order to verify the hypothesis of economic advantages of state-owned enterprise privatization.

Such a hypothesis is posed on the basis of institutional research of forms of ownership (Alchian, Demsetz 1992; Demsetz 1967; Furuboth, Pejovich 1974). The Chicago school of property rights proposed a method of description of ownership relating to the concept of Roman ownership law. In the Roman concept, ownership was absolute. The owner had *ius utendi et abutendi* (the right to use and to dispose) the owned thing. The right was not limited by any social forces, thus the owner has full power over the thing and could treat it according to his will, regardless of the situation and rights of other persons. That was what possession meant, the relationship of mastery of a private person over a thing, in which the persons considered the thing their own, belonging to them to such an extent so as to use it and dispose of it will. Possessing a thing is the basis for rights of using and disposing, giving the owner a chance of operation, undertaking economic initiative, etc.

Separating ownership laws and relating them to a private person as an ownership subject characteristic of the Roman concept, was utilized by the Chicago school for investigating a bundle of property rights. It is assumed that the object of ownership are all kinds of scarce goods, whereas the subject of ownership is a private person. If the case is a co-ownership of different persons, it is analysed through the determination of the particular rights of these persons.

The subject of ownership has a bundle of socially accepted rights for undertaking activities connected with scarce goods. A complete set of property rights includes:

1. the right to use and to use up the object of ownership,
2. the right to appropriate the return from the object of ownership,
3. the right to determine the destination of any income resulting from ownership,
4. the right to relinquish usage,
5. the right to transfer property rights upon other private persons.

The possibility of realization of ownership as the relationship of a private person to scarce goods, expressing itself in deciding upon the object of ownership, can be determined from a probability analysis of realization of each property right by a given person. Thus comparing state ownership with the private form it was found that state ownership, as incomplete and untransferable, does not encourage economic efficiency as it is not capable of operating in longer periods of time. Another characteristic of state property rights – their inexclusiveness (dispersion among different subjects) does not allow direct comparisons with private ownership, as some forms of private ownership are

also characterized by inexclusiveness. Only a deeper analysis of a state, as an ownership subject, operation allows the conclusion that the state form of ownership is influenced by the political market to a much greater degree than the private form, which is mainly influenced by economic markets. As a result, the degree of financial constraints is different, weaker for State-owned enterprises than for private ones, and also the operating objectives are different.

It can therefore be assumed that the transfer of property rights from the state to private persons influences the possibilities of ownership realization, because the following take place:

1. rights bundle increases in the range characteristic for private ownership (especially in the right to transfer),
2. personal interests concerning the ownership object „break free”,
3. government gives up direct control over certain branches and markets,
4. property rights get a chance of realization in the process of dynamic competition (opening the entry to privatized branches).

The mentioned elements of property rights transfer create only potential possibilities of operation with the ownership object. It can be assumed with a high probability that the transfer of property rights from the state to private persons will result in an improvement in production and allocation efficiency only if:

1. the privatized firm is exposed to the influence of product, capital and manager markets,
2. there exist circumstances for potential competition on the product market where the privatized firm operates.

The formulation of such conditions arises from the assumption that property rights are used by persons (owners and managers) who find themselves in the face of necessities created by the afore-mentioned markets, so they must take reasonable, from a procedural (instrumental) point of view, decisions aimed at increasing the firm's profits and value in the long run. It does not mean, however, that every privatized firm operating in the aforesaid conditions will become efficient, innovative and expanding, but that a group of such firms will get a mechanism of selection, which will eliminate permanently unprofitable firms and carry out an effective allocation of capital.

In countries with a ripe market economy, the transfer of property rights from the state to private persons is often accompanied by exposing the privatized firms to the selective influence of market mechanism (Yarrow 1986, pp. 324-337; Cubin et al 1987; Shapiro, Willig 1990). It is therefore possible to carry out research aimed at verifying the hypothesis of economic advantages that come as a result of state-owned enterprises privatization, such as the improvement of rate of return or price drop. However, in Poland the property

rights transfer has a different course than in countries with a developed market economy. The most important differences are:

1. The bundle of rights if extended in a different scope, depends upon the stage and method of privatization. Only enterprises where the property rights transfer takes place in the form of sale, the bundle of rights is extended to a scope characteristic for private form of ownership.

2. The personal interests „break free” also depending on the stage and method of privatization. In transformational forms of privatization, such as corporations owned by the State Treasury as a single shareholder or firms which signed leasing contracts, different interests meet, not always directed at the enterprise profit and increase of the enterprise value. A weak capital market and the lack of manager market support that state of interests.

3. Deregulation of markets and branches is incomplete and inconsistent, especially concerning firms in transformational forms of privatization, which influences the differentiation in the degree of their financial constraints in relation to private firms and state-owned enterprises.

4. Creating a premise for potential competition needs deep structural changes in the entire economy, which cannot be carried out at the same time as the privatization of state-owned enterprises.

That implies that in respect to the state-owned enterprises privatization in Poland, it is not possible to formulate the hypothesis that property rights transfer from the state to a private person will end in an improvement of production and allocation efficiency, or to verify it. It is only possible to research the economical results of property rights transfer taking place under certain circumstances and to try and determine to what extent these results arise from the property rights transfer, and to what extent from the influence of the surrounding privatized firms.

3. OBJECT OF STUDY

The research included all state-owned enterprises in the Wrocław province from 1990 to June 31 1993 in which the privatization process started. On June 30 1993, 88 firms were at different stages of privatization carried out on the basis of the State-owned Enterprises Privatization Act and the State-owned Enterprises Act. Twenty three of these enterprises were transformed into corporations owned by the State Treasury as a single shareholder, whereas the others were undergoing liquidation procedures. Among these firms, 2 corporations owned by the State Treasury as a single shareholder and 5 liquidated firms were sold in the test period, which makes less than 8% of the total number of privatized firms and 2% of the total number of all state-

owned enterprises as on December 31 1990. Only in these enterprises a complete transfer of property rights took place, therefore they could make the proper object of study with the „case by case” method. It was only possible though, in one of the two sold corporations owned by the State Treasury as a single shareholder, as the other one was sold at the end of the test period. On the other hand, in the five firms sold in result of liquidation, structural changes occurred which made the comparison of state before and after privatization impossible.

Research was also carried out in the firms which were in transformational stages of privatization and operation as corporations owned by the State Treasury as a single shareholder (21 enterprises), companies paying for using state-owned assets (not in agriculture) (38) as well as companies using property under supervision of Agency of Agricultural Property of the Treasury (6). In that group of enterprises the property rights transfer did not take place at all or dealt only with the right to use, and the right to dispose of profits resulting from the usage of the object of ownership (1). The bundle of rights was therefore not extended with the right to transfer property rights.

Comparing property rights of the successive transformational forms of privatization it can be concluded that:

- firms acting as corporations owned by the State Treasury as a single shareholder have more possibilities to realize their rights to use than state-owned enterprises, because of weaker financial constraints and liquidation of workers’ self-government,

- firms operating as corporations owned by the State Treasury as a single shareholder have weaker rights to use and to dispose of profits compared to enterprises paying for using state assets. It concerns mostly the limitations in the increase of salary fund,

- firms paying for using state assets have no possibility to ensure their liabilities on the used assets, as corporations owned by the State Treasury as a single shareholder do.

This implies that there are no significant differences as far as property rights go between those enterprises operating as corporations owned by the State Treasury as a single shareholder and enterprises paying for the right to use state assets. However, the rules of functioning of these enterprises changed: in the corporations owned by the State Treasury as a single shareholder the rights of workers’ self-governments were shifted to the management and the board of directors, and the degree of financial load of dividend and pay rise tax changed. It did not have any influence on „freeing” personal interests concerning the object of ownership in a way characteristic of private ownership. There are no clear interests concerning the object of ownership in the long run. The phenomenon is boosted because of the

uncertainty about the realization of the privatization programme. Despite opinion polls about enterprise operation objectives, the corporations owned by State Treasury as a single shareholder generally declared profit maximization in a long period profit and enterprise expansion, facts like the lack of development strategy and business plans indicate rather a narrow horizon of action.

On the other hand firms which pay for using state assets, apart from changes in financial load like the liquidation of pay rise tax and dividend and obligation of paying rent or leasing rates, noted changes in the user's interests range. The character of such changes depends on the form of the company and on the conditions of payable usage contracts. According to the first criterion, two groups of state assets users may be separated:

1. users employed in the firm (a popular, but imprecise name: employee companies)
2. users not employed in the firm (capital companies)

The first users type is interested in pay maximization and job protection, whereas the other type of users prefer profit maximization. The time pattern of these two conflicting interests depends on the conditions of contract for right of use of state assets. A wider horizon appears in the situation of leasing or rent with sale option, and a narrower one characterizes payable utilization situation without the sale option.

A majority, as many as 84% enterprises in Wrocław province liquidated on the basis of Privatization Act, were taken in lease by the so-called employee companies. Far fewer companies were taken-over by capital companies which function in a way closest of all to the examined kinds to private firms. In the test group therefore mostly corporations prevail owned by the State Treasury as a single shareholder and employee companies paying for using state assets on the basis of leasing contracts.

The structure of ownership transformations formed in the Wrocław province closely resembles the structure all over the country (see Table 1).

A comparatively high level of development of Wrocław province, and the higher than average percentage of large enterprises resulting from it is the explanation of the slightly higher proportion of firms privatized with the capital method. The size of firms is an obstacle in individual privatization in Wrocław province. One in two sold enterprises employs 200 people and has a revenue of 35 milliard zł.

The size of firms privatized with the capital and liquidation method is connected with the firm's position in the market. Many firms transformed into corporations owned by the State Treasury as a single shareholder get a conditional permit from the Anti-Monopoly Office, so many of them operate having a monopolist or dominating position on the market. A resignation by

the Anti-monopoly Office from the right to stop the transformation of state-owned enterprise into a corporations owned by the State Treasury as a single shareholder may be considered a factor delaying the process of competition conditions (Jakóbiak 1993).

Table 1
The structure of forms of privatization of state-owned enterprises between
31 December 1991 and 30 June 1993

Form of privatization	Poland	Wroclaw province
Total	100.0	100.0
Capital privatization	22.2	26.1
– aimed at individual privatization	14.0	11.5
– aimed at general privatization	8.2	12.6
Liquidation privatization	77.8	73.9
– on the basis of Privatization Act	35.2	51.1
– on the basis of State-owned Enterprises Act	42.6	22.8

Source: own assessment on the basis of: "Dynamika Prywatyzacji" No 17, MPW, Warszawa, June 1993 and Provincial Statistical Office materials in Wrocław.

That phenomenon does not occur in the group of enterprises transformed with the liquidation method which because of their smaller size do not have a dominating position in the market. However, if they happen to have such a position, they do not get a permit for transformation from the Anti-Monopoly Office (see table 2).

The described group of enterprises on their way to privatization was covered in the research although the transfer of property rights was carried out only to a very small extent, as the results of privatization shall depend upon the economic results gained in the transformational stages of privatization.

Table 2
Structural decisions of the Anti-monopoly Office (Art. 11 and 12 of the Anti-monopoly Act)
between 13 April 1990 and 31 December 1992

Year	Total No of decisions	Conditional permit for transformations	Prohibition of transformations	Division
1990	192	17	8	-
1991	974	63	4	12
1992	740	9	9	4
Total	1906	89	21	16

Source: Anti-Monopoly Office 1992 operation report

4. STUDY METHOD

From the characteristics of the tested group of enterprises it turns out that the answer to the question about the economic effects of state-owned enterprises privatization is possible only in connection with several fully privatized firms in the Wrocław province, and only on a microeconomic scale. These firms were examined using the case study method in order to determine their economical condition before and after privatization. Special attention was paid to the obligations which new owners of the privatized firms under and to their influence upon the economic results of the firm.

From the remaining group of examined enterprises, enterprises transformed into corporations owned by the State Treasury as a single shareholder were separated, as well as enterprises privatized with liquidation and bankruptcy methods, on the assumption that functioning rules and the scope of property rights transfer differ in these situations. In the group of enterprises privatized with liquidation method, again two groups were separated: enterprises liquidated on the basis of State-owned Enterprise Privatization Act (liquidation privatization) and enterprises liquidated on the basis of State-owned Enterprises Act (bankruptcy privatization). The liquidation privatization included:

1. sale of the enterprise assets in whole or in part,
2. transfer of the enterprise assets in whole or in part into the partnership,
3. giving the enterprise assets in whole or in part to payable utilization on the basis of one of the three kinds of contracts:
 - contract for lease
 - contract for rent with sale option
 - contract for rent without sale option

In comparison to enterprises transformed into corporations owned by the State Treasury as a single shareholder which continue their operation, liquidated and bankrupt enterprises are removed from the register of state-owned enterprises and replaced by sometimes even more than one new enterprise. It is a serious obstacle in examining this group of firms in order to compare their economical results before and after ownership transformations.

The mentioned groups of enterprises were included in the following study:

1. determination of statistical regularities in every group in the fields of costs level, rate of return, gross rate of return and financial liquidity, before and after the beginning of privatization process on the basis of material gathered in the Provincial Statistical Office in Wrocław,
2. evaluation of the reasons for changes of economic results of each enterprise on the basis of an analysis of answers to questions in a questionnaire di-

distributed in all tested firms (return factor was 90% for corporations owned by State Treasury as a single shareholder and 10% for liquidated enterprises),

3. determination of changes occurring in privatized enterprises in the field of the time horizon of decisions, evaluation of chances and dangers as well as of the attitude to economical risk on the basis of quarterly evaluation of prosperity test distributed in all tested enterprises (return factor approx. 60%).

During the research it was found out that the information coming from the Ownership Transformations Ministry and from the Provincial Statistical Office differed and were not true. This is the reason why all the statistical materials were verified in the tested enterprises. It greatly increased the amount of work to do, however it helped to arrive at the conclusion that all evaluations of the privatization process in Poland have to be carried out with great caution.

5. MICROECONOMIC EFFECTS OF PROPERTY RIGHTS TRANSFER

The microeconomic effects of property rights transfer were examined in one enterprise sold to a home investor.

Firm X, operating in electro-machinery and employing approx. 200 workers found itself at the verge of bankruptcy in 1992. The sum of its obligations arrived at the level of its assets' book value, whereas its loss in 1992 amounted to 1/3 of the book value of assets. An alternative for bankruptcy was to sell the enterprise to a home investor for a symbolic one zloty. The sale purchase contract obliged the new owner to do the following:

1. increase the equity capital by 10% of book value of assets during 6 months,

2. keep the level of employment for one year from the date of purchase, under the penalty of 10% of book value of assets,

3. keep the production of environmental protection equipment and telecommunication equipment and also extend the offer with certain products,

4. pay all obligations of the enterprise to the end of 1994.

These are typical conditions of sale purchase contracts of state-owned enterprises signed in result of offer tender. They are usually concerned with the level of employment, investments, activities for the environmental protection and re-payment of obligations.

Firm X is one of the many firms which lost their markets in the Council for Mutual Economic Aid countries and had to adapt to the home market, where demand changed in quantitative and structural manner and where there

is competition. The owner had to take action aimed at finding out new products, introducing them to the market and keeping a permanent position on the market, as well as reducing costs. Such necessities are typical for many firms in Poland. The introduction of new products on the market is carried out under conditions of shortage of capital, which negatively influences the quality of the products and their promotion. The owner of firm X undertook different actions at the same time to reduce costs as a result of which the firm turned profitable. However they were not sufficient for fulfilling the obligations agreed to.

In the investigated case, the property rights transfer from the state to a person unmistakably influenced the exposure of personal interest and undertaking efficiency oriented actions. But the fact that property rights are burdened with social easements (level of employment, environmental protection) makes reduction of firm private cost impossible. Costs in such firms are rather of a social kind, which indicate the choice of a lower level of optimum production than in the situation of private costs only. The Government option for the protection of jobs collides with the objectives of the owner, which would bring about an increase of production as well as the primary and secondary demand in the long run, at the same time founding a basis for economic development. In this situation a restructuring of the firm's obligations might alleviate the conflicts.

6. MICROECONOMIC EFFECTS OF STATE-OWNED ENTERPRISES TRANSFORMATION INTO CORPORATIONS OWNED BY THE STATE TREASURY AS A SINGLE SHAREHOLDER

The transformation of a state-owned enterprise into a corporation owned by the State Treasury as a single shareholder is not only an introduction but a formal condition of property rights transfer to private persons. It is also believed that shifting the rights of an enterprise to management and the prospect of privatization should improve the firm's effectiveness. In order to verify that hypothesis, the following tests were carried out in all enterprises in the Wrocław province transformed into corporations owned by the State Treasury as a single shareholder:

1. comparison of economic results of enterprises before and after the transformation,
2. evaluation of restructuring activities results in examined enterprises,

3. comparison of economical condition of the corporations owned by the State Treasury as a single shareholder with results achieved by private firms.

Ad 1: Before the transformation into corporations owned by the State Treasury as a single shareholder, all examined firms had a favourable net financial result, where better results were achieved by enterprises transformed for capital privatization (on the basis of art. 5 of State-owned Enterprises Privatization Act). A large differentiation in the rate of return and in loads for the State Treasury occurred in the branch spectrum. Relatively worse results turned up in enterprises in the electro-machinery industry and, the in chemical and transport industries, whereas better results occurred in enterprises in light and the food industry. The majority of enterprises, as many as 19 in the group of 22, had to pay tax on excessive salaries. One third of the enterprises had payment problems (liabilities/accounts receivable ratio was over 1).

After transforming the examined enterprises into corporations owned by the State Treasury as a single shareholder, their economic results continued to decrease in 1991 and 1992. The average rate of return decreased from 16.3% to 9.9%, whereas the scale of changes was differentiated in different branches. Before transformation, none of the enterprises was in short balance, but already in 1993 four enterprises noted a loss, some others noted a near-zero rate of return. A drop of the rate of return occurred in all branches. It was most visible in the electro-machinery and food industries. An increase of the rate of return was noted in one enterprise in the fuel-energy industry. After transformation the economic results continued to be differentiated in the method of privatization. Better results were noted by enterprises designated for capital privatization.

The described phenomena occurred not only in enterprises of the Wrocław province. They are typical of all enterprises transformed into corporations owned by the State Treasury as a single shareholder in Poland.

Ad 2: Among the examined enterprises a majority, although not all, had restructuring plans. In 1991 and 1992 the enterprises undertook the following actions:

1. reduction of employment, on average by 21%,
2. introduction of new products and adapting the production structure to the structure of domestic and foreign demand,
3. modification of product quality,
4. reduction of energy consumption,
5. activation of marketing services, whose work in a half of the examined enterprises helped reduce the degree of inventory.

While evaluating these actions it was found that they were all based on the activation of simple internal reserves. The reduction of employment was not accompanied by the adaptation of the employment structure to the new situa-

tion. Only 43% of the examined enterprises found their level and structure of employment in accordance with their needs. Changes in products were rather a modification of the product so far, without any technological changes. Only one enterprise ventured an investment. As a result, in spite of the undertaken restructuring actions the economic results of enterprises were getting worse. In particular the examined enterprises were not able to face competition on foreign markets and of the competition of foreign products on the home market. A typical example of that is the machine industry.

Ad 3: There is no possibility of comparing the economical results of enterprises transformed into corporations owned by the State Treasury as a single shareholder with the results of private firms of a similar size and field. Because of that only average results of all the corporations owned by the State Treasury as a single shareholder and private enterprises in the Wroclaw province were compared. The comparison showed that private enterprises have a higher factor of cost level and a lower rate of return and profitability than the corporations owned by the State Treasury as a single shareholder; however a falling tendency was much less clear in the private sector. It was also found that statistical loads on gross profit were lower in the private sector than in corporations owned by the State Treasury as a single shareholder, which were all charged with an excessive salary tax. The phenomenon observed in the Wroclaw province is typical for the entire country and is explained by the different way of cost accounts in private enterprises.

On the basis of the presented test results we can conclude that:

1. a transformation of state-owned enterprises into corporations owned by the State Treasury as a single shareholder did not improve their economic results,

2. a basic factor reducing the rate of return of the examined enterprises was the decrease of demand on home market and difficulties with sales in foreign markets,

3. corporations owned by the State Treasury as a single shareholder are protected against the influence of market mechanism of efficient enterprises selection, which is manifested by the presence of deficit enterprises,

4. corporations owned by the State Treasury as a single shareholder are interested in pay rises, which can be proven by:

- increase in the number of enterprises paying the excessive salary tax
- the fact that deficit firms also pay excessive salary tax,

5. differentiation in economic performance results from the difference in product and price flexibility of demand, the firm's position on the market as well as the range and type of state control over each market. These situations are illustrated by the following examples characteristic of the examined group:

a) a monopolist producing goods, for which the demand is inelastic, has relatively wide possibilities of raising prices, hence arriving at a relatively high rate of return. Because it is a monopoly under state control, changes in rate of return are caused first of all by changes in the state economical policy (the case of a fuel-energy industry firm),

b) an enterprise operating in a competitive market, producing goods for which the demand is elastic has limited possibilities of raising prices to a level compensating the increase of production costs. As a result, the rate of return in the firm constantly decreases (the case of the food industry firm),

c) an enterprise operating in a competitive environment, producing goods of high price elasticity of demand has limited financial possibilities of adapting in a short time to the new conditions of operation and is driven to reducing its production towards a shut-down point (the cases of electro-machine industry and construction industry enterprises)

d) an enterprise of a dominating or monopolist position in the home or local market, at the same time competing in foreign markets is trying to compensate its losses in export with raising prices in the home market. Because it is not always possible to help to gradually reduce the decrease of rate of return, the enterprise declares demand for government regulations which would protect its situation in the home market (the cases of electro-machine industry, chemical and metallurgic industry enterprises)

e) an enterprise operating in a competitive environment in the home and foreign markets which noted a relatively insignificant decrease of demand for its product and therefore has a prospect of keeping the existing level of rate of return. The good condition of the enterprise is also caused by permanent contracts for the so-called processing export (the case of a light industry enterprise)

6. the corporations owned by the State Treasury as a single shareholder are above all interested in pay rises and job protection. The results of a privatized firm in the electro-machine industry (see paragraph 4) is the best example of this: the firm, operating in the same environment as other enterprises of the same branch transformed into corporations owned by the State Treasury as a single shareholder, immediately after the transformation turned profitable and now is successively paying back all obligations made during the period of private enterprise operation.

7. MICROECONOMIC RESULTS OF STATE-OWNED ENTERPRISES LIQUIDATION

The privatization of state-owned enterprises through liquidation is carried out in many different ways, but a majority of firms liquidated on the basis of State-owned Enterprises Privatization Act proceeds into the stage of acquiring property rights in the form of lease. The rest of such enterprises and enterprises liquidated on the basis of State-owned Enterprises Act is usually sold in whole or in parts. In the Wroclaw province only one sale of a whole firm was carried out, as described in paragraph 4. No enterprise was privatized in the form of a „quick sale”. However, there occurred a remarkable case of privatization of two bankrupt enterprises.

The determination of the microeconomic effects of firm privatization through liquidation by comparing the economic results before and after privatization or comparison with other private firms was not possible because:

1. a majority of enterprises overtaken for payable utilization are restructured beforehand. Most often excessive assets are sold, which changes the basis for comparisons,

2. enterprises liquidated on the basis of State-owned Enterprises Act were sold in parts.

One liquidated enterprise is used to create several smaller firms, or the liquidated firm's assets are transferred to other existing firms.

Because of that, when examining the group of state-owned enterprises transformed through liquidation, we concentrated on the following:

1. does the economic condition of enterprises which use the assets on the basis of lease contracts enable them to pay the installments and lease payments, and does it have a chance to survive and develop?

2. does the enterprise liquidation – the so-called bankruptcy liquidation – have a smooth course according to the criterion of minimizing losses?

Ad 1: Firms which use state assets on the basis of lease contract were initially in a good financial condition. In 1991-1993 the average gross rate of return decreased from 34.1% to 4.6%. In individual cases, there occurred gross loss and net loss, mainly in the electro-machine industry, which is not able to face strong foreign competition because of the technology gap. On the other hand, enterprises in the fuel-energy industry managed to keep a relatively high gross rate of return. The increase of cost participation in the value of sold production was stronger than the decrease in rate of return, which means that the examined enterprises improved their rate of return through non-operational activities. This phenomenon is typical for the entire country.

The financial liquidity of the examined enterprises was systematically deteriorating. The liabilities/accounts receivable ratio was growing from the level of 0.5 in 1991 to 2.0 on average in 1993, whereas obligations were more often state budget obligations. Eventually only 14% of the examined enterprise managed to maintain financial liquidity.

In the conditions of a worsening financial situation the examined enterprises considered the leasing installments and payments a load too high for efficient development or even survival. It concerns especially enterprises in branches open to competition in which the introduction of technological and product innovations are necessary. More than half of the examined enterprises undergoing ownership transformations started to re-negotiate their lease contracts, mainly enterprises from the electro-machine industry and construction industry. These are enterprises which had a good economic condition when signing their lease contracts and which predicted that they would be able to fulfill the undertaken obligations. The prosperity test carried out in 1992-1993 brought information which was limited to a very narrow time horizon (several months), and which was full of exaggerated optimism about the change in the economical situation.

Firms paying for the right to use state assets on the basis of lease contract have relatively higher financial constraints, as compared to private enterprises they may not apply for investment credits on mortgage. It is considered a very serious obstacle to development.

Ad 2. Enterprises designated for liquidation through bankruptcy were obviously on deficit. They were obliged to pay income tax, dividend and an excessive salary tax before the completion of liquidation procedures. Because of the deficit, these enterprises do not even try to fulfill these obligations, and even they raise salaries over the regulation level, which ends up in the increase of obligations to the state budget. They also increase obligations for supplies far beyond the level of claims. These obligations and relatively high costs of liquidation often result in per saldo losses for the state budget. In connection with that it must be noted and positively evaluated that in the Wroclaw province the company promoters try to keep the time of liquidation as short as possible. It is also worth mentioning that two enterprises in the mineral industry underwent restructuring, which caused their slow but constant improvement in their economic situation. Contrary to many enterprises liquidated through bankruptcy procedures which did not make more significant employment reductions, these two enterprises carried out employment rationalization and set upon investment projects while still operating as state-owned enterprises.

The criterion of loss minimizing in the state-owned enterprises bankruptcy process is often in conflict with the postulates of company promoters to save

jobs, which delays the completion of liquidation procedures. In Wrocław province, company promoters for liquidated firms appointed for the time in Poland supervisory councils for three enterprises of the group.

8. CONCLUSIONS

In the examined group of state-owned enterprises which undergo ownership transformations, the occurrence of phenomena characteristic of recession period were noted, such as:

1. decrease of production, a drop in the ability to use the production capabilities, increase the fixed costs in costs of goods sold and in net sales, as well as a decrease in the rate of return,
2. shifting of enterprises from the area of profitable operation to the area of deficit and to shut-downpoint.
3. reduction or cease of investments,
4. reduction of employment slower than the reduction of production,
5. deterioration of loss of financial liquidity.

The enterprises were affected by recession to a different degree, depending largely on their position in the market and on the range of state control (regulation of prices, home market protection etc.). Monopolist enterprises, enterprises of dominating position in the market and enterprises which operate in the market of products characterized by inelastic demand are in a good position. On the other hand, enterprises which operate in a competitive environment, which operate in the market of products characterized by elastic demand, quickly lose their profitability. A monopolist or dominating position does not always result from a large degree of concentration but is sometimes caused or induced by state activity.

The scale of these phenomena occurrence is modified by privatization procedures. Firstly, a delay in ownership transformations make business people choose the 'waiting variant', they concentrate on realizing social objectives before anything else, such as pay rises, employment protection, even for the price of deficit. Secondly, the choice of privatization method influences the expectations of enterprises and the length of their operating horizon. Firms transformed into corporations owned by the State Treasury as a single shareholder and designated for individual privatization undertake restructuring activities in a broader range than firms designated for common privatization. On the other hand enterprises which signed lease contracts and because of that should already have a long operational horizon, encounter stronger financial constraints than corporations owned by the State Treasury as a single shareholder. Because of that, in spite of similar property rights, the chance of using

them in leasing companies is relatively lower. Thirdly, the conflicting interests of enterprises designated for liquidation through bankruptcy, leading to a delay in the completion of liquidation procedures, results in increasing losses in that group of enterprises. It can be finally concluded that the longer the process of privatization, the stronger the phenomena typical for the recession period, and the process of effective selection of enterprises takes much more time or scarcely ever takes place, because as long as the enterprises are not private they remain under the protection of the state.

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