

Marek Grzybowski Ph. D.  
Elzbieta Czastka M. Sc.  
Wyzsza Szkola Administracji  
i Biznesu w Gdyni

## RESTRUCTURING ENTERPRISES IN POLAND IN THE TRANSITION PERIOD IN 1989-1998

*Privatisation in Poland began with the adoption of the Act on the Privatisation of state-Owned Enterprises in 1990 which defines the legal and institutional framework for the privatisation Polish enterprises. Privatisation can be initiated by the management and workers' council, by the ministry incharge of a company in agreement with the management and workers' council, or at the request of the prime minister following advise from the Ministry of Privatisation. Privatisation can be achieved by one of two basic methods: indirect and direct privatisation.*

*Key words: indirect privatisation, direct privatisation, restructuring, commercialization.*

The abolition of predominant state ownership in any economy through privatization is judged necessary as a precondition of creating and strengthening market economy mechanisms.

Over a period of time we can observe the turbulent and dynamic establishment of new private enterprises based on an alternative legal base in Poland. The scope for the durability and functioning of market mechanism is being utilized in privatizing state ownership so far. The basic law act in this field is the act of 30 August 1996.

There were two basic methods of privatizing state enterprises:

- indirect privatization,
- direct privatization.

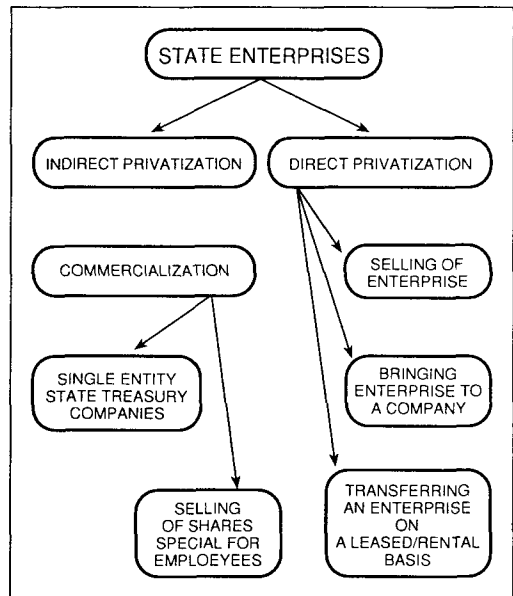


Fig. 1. Mechanizm of privatization of state enterprises

**Indirect privatization** is based:

- on commercialization, it enables the transformation of a state enterprise into a single entity State Treasury company and then
- the shares of the company are sold by the State Treasury.

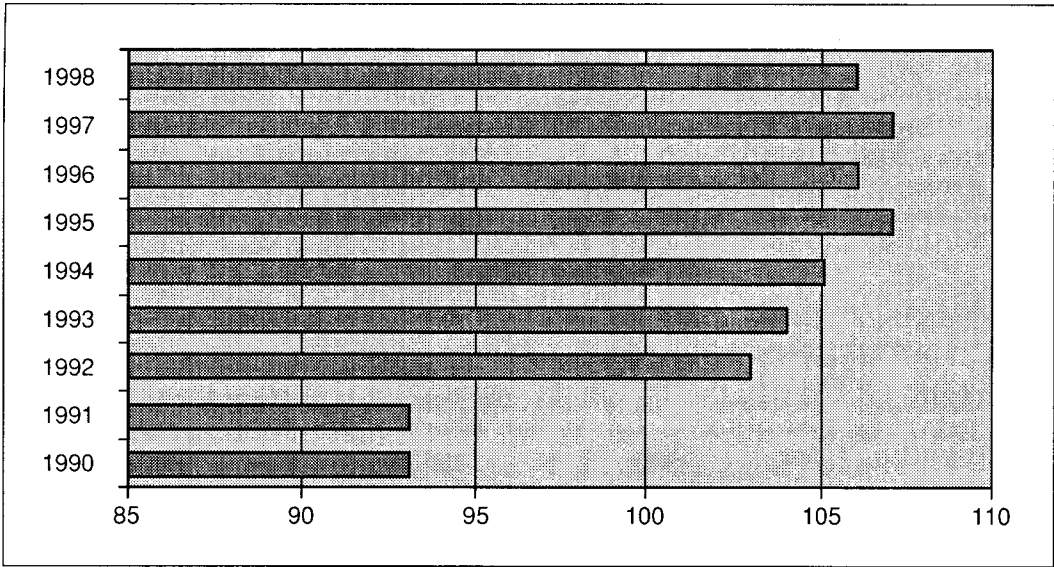


Fig. 2. GDP growth in Poland (previous year = 100%)

**Direct privatization** can be achieved in three forms:

- through the sale of an enterprise,
- through combining an existing enterprise with the company,
- through leasing or renting of an enterprise.

Direct privatization is the way foreseen for small and medium sized enterprises, which do not achieve a certain level of employment, sales and own funds.

**Selling and bringing an enterprise to a company.** Selling is the most radical and the fastest way of privatization. It usually takes place by public tender.

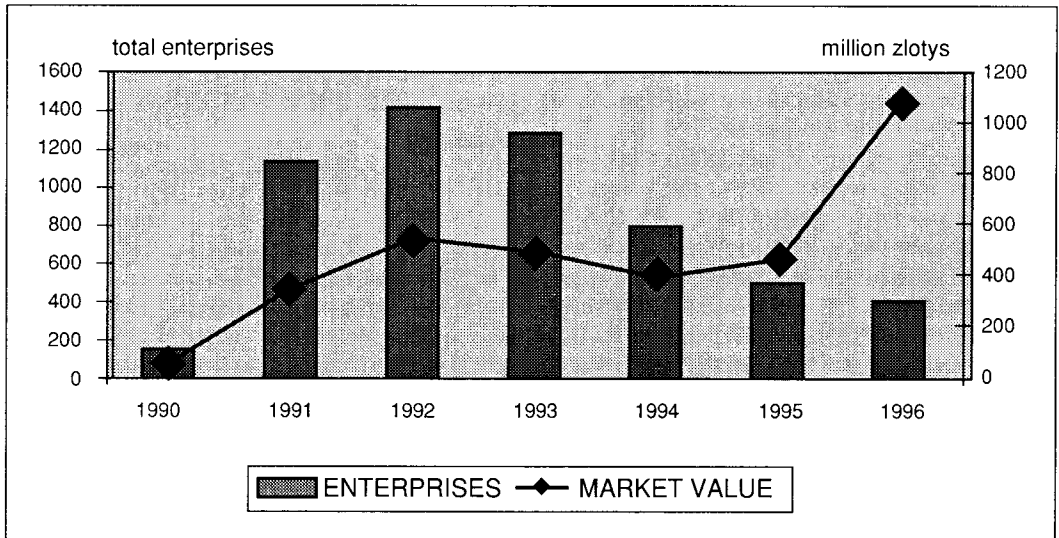


Fig. 3. Privatization process in Poland

Privatization through bringing an enterprise to a company takes place by establishing the State Treasury company with a domestic and/or foreign entity and then selling the shares of the original state enterprise. Employees of a state enterprise which is combined with a company are entitled to free issue of 15 % of the shares which are at the State Treasury's disposal.

**Transferring an enterprise on a leased/rental basis** is based on an agreement and it can be a form of renting with the option of leasing - a lease with gradual Buy-Out.

In both of these ways the party of the agreement with the State Treasury on converting an enterprise to leased/rental operation can only be a company in which:

- it takes on more than half of all employees of an enterprise,
- partners are only private persons resident in Poland,
- the level of paid company capital is not lower than 20 % of the total enterprise's funds.

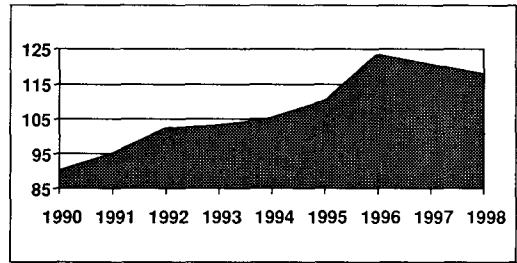
Transferring an enterprise into a leasing company, often described as employees' company is the most common way of direct privatization.

Taking over an enterprise by an employees' company causes the immediate change of the form of management.

**Table 1. Foreign direct investment in Poland, by sector**

*Investment over \$1 million, by European classification of Industrial Activity*

Type of production	Existing invested (\$ million)	Planned investment (\$ million)
Food, drink, tobacco	3276.9	1109.4
Transportation	2511.9	1948.7
Paper, printing & publications	928.0	113.5
Building materials	699.3	772.5
Telecommunications	657.5	215.2
Chemicals	606.8	246.4
Electrical & optical	416.8	292.9
Electronic equipment	391.6	34.5
Glass	370.8	161.8
Industrial gases	242.2	107.0
Wood & furniture	210.5	191.7
<b>Total</b>	<b>11436.9</b>	<b>5958.2</b>



*Fig. 4. Total investment in Poland (previous year = 100 %)*

The programme of National Investment Funds is based on indirect privatization. Selling and transferring an enterprise to another company is used as a way of developing the property of liquidated or bankrupt enterprises.

Privatized enterprises turned out to be more effective and better adapted to the changing requirements of the market.

The period of transition of the political system which started in Poland in 1989, touched not only cultural, social and political life but particularly economic life.

**Table 2. Largest investment in Poland of 1997, by firm**

Investor	\$ million	Sector
Daewoo Korea	881,8	Cars
Fiat	253,8	Cars
Framondi	175,0	Paper
France Telecom	170,0	Telecommunications
British Petroleum	166,0	Fuel distribution
Commerzbank AG	155,0	Banking
Citibank	150,0	Banking
Statoil	129,0	Fuel distribution
Pepsico	120,0	Foods
BOC Group	120,0	Technical gases
Epstein	110,0	Construction
Kronospan	106,0	Furniture, paper
<b>Total</b>	<b>2551,0</b>	

The change of the system to a significant degree contributes to the stimulation of economic life so far and forced a change in the functioning of most enterprises, particularly state ones.

Contemporary, successes can only be achieved by the enterprise which has specified objectives of its activity and in which all the employees proceed according to an appointed strategy of performance.

The other way of proceeding consists of "management by events" - it means they are only the reaction to what happened in the past. And because of this, for a company it is important not to focus on short-term profit maximization, but on investing in long-term development and increasing market value.

For many state enterprises the transformation of the economy was connected with the necessity to carry out a number of changes to ensure the enterprise's survival and development.

The situation which occurred in Poland after 1990 forced existing enterprises to change not only their capital structure but also their management system.

The transition from a central command economy to a market economy did not have any exemplar either in Europe or in the World, so that the restructuring of the whole economy in Poland has a unique character and it is almost totally based on innovative methods of achieving change and the correction of ensuing errors.

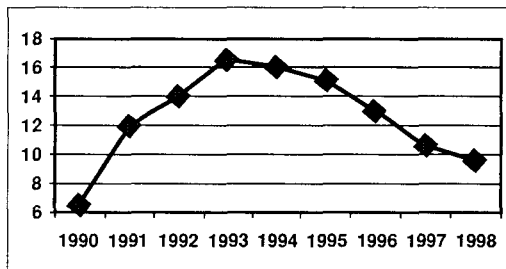


Fig. 5. Unemployment rate in Poland

The currently functioning market economy requires not only elastic activity but also the ability to foresee the direction of change.

Polish enterprises, as a result of the transformation almost overnight achieved independence in deciding on choosing methods of development and became more aware of the changeability of the environment.

"Restructuring - a radical change in at least one of three dimensions of an organization, it means a range of activities, capital structure and internal structure, to restore an enterprise's internal balance and its relationships with the environment".

"Restructuring is a process of adaptation of an economic organization to a changeable market situation to ensure competitiveness".

The most characteristic Polish situation is selling a part of the property and commercialization and after that privatization of state enterprises and creating holding groups alongside developing independent enterprises and companies. Commercialization - transforming a state enterprise into a company which takes over all the legal relationships of the entity as a state enterprise.

Recent experience shows that the process of modernization of the Polish economy is gradually and systematically being realized. This is clearly visible in the field of both organizational and legal changes, because the huge majority of enterprises functioning up to 1990 were put into the process of privatization.

There was a fundamental quantitative increase of enterprises which started their privatizing path in 1995. When in the middle of that year there were in process of privatization approximately 3500 enterprises (total from 1990) compared with a total 8800 enterprises, then in the end of 1995 took place a significant increase in the numbers of restructured enterprises.

However the privatization calendar to the year 2000 still contains a long list of enterprises to be privatized.

During the first three quarters of 1997 the next 174 state enterprises were included in ownership transformation processes (44 % less than in the same period of the previous year).

The predominant form of ownership transformation was still direct privatization, which encompassed 89 enterprises (15 % less than in the same period of 1996).

There were 25 single entity State Treasury companies privatized through selling off in the same period (6 % more than in the three quarters of 1996).

It is significant that the pace of change taking place in the field of ownership transformation increased at the beginning of the activity of the National Investment Funds in 1995. The essence of their activity at that time was selling so called share certificates.

It has to be emphasized that there is a noticeable improvement of effectiveness in the privatized enterprises.

*LITERATURE*

Lichtarski J.: Podstawy nauki o przedsiębiorstwie, Wrocław s. 85-91.

Brozi E.: Drogi i bariery prywatyzacji przedsiębiorstw państwowych, Łódź, UL 1993.

Frager R., Wilson M.: Privatization. The UK Experiences and International Trends, London: Longman 1988;

Wojtyła A.: Nowoczesne państwo kapitalistyczne a gospodarka, PWN, Warszawa 1990.

Ustawa z 30/8/1996. o komercjalizacji i prywatyzacji przedsiębiorstw państwowych. Dz. U. 1996. Nr 118, poz. 56.

Ustawa z 25/9/81. o przedsiębiorstwach państwowych. Dz. U. 1991. Nr 18 i Nr 75.