

Form of privatization and the efficiency of enterprises (based on the so called direct privatization)

According to the act on privatization of state-owned enterprises, in Poland there are four forms of direct privatization in use:

- sale of a whole or a part of state-owned enterprises' property (3.7.1.1 article from the privatization act)
- contribution of a whole or a part of state-owned enterprises' property to partnerships (3.7.1.2 article from the privatization act)
- leasing (3.7.1.3)
- other solutions (the so called fast path, mixed forms of transformation)

In Poland direct method of privatization is used in a case of medium-sized enterprises, with employment amounting from several dozen to several hundred of employees and assets from a few to anywhere from ten to twenty mln USD. From amongst mentioned above four forms of direct privatization, the most meaningful is leasing (3.7.1.3). It consists in creation of employee partnerships on a base of state-owned enterprises and payable use of their property. Those partnerships are obliged to repurchase the assets from the state within a few years. The obligatory condition for creation of the employee partnership is participation of at least a half of employees from state-owned enterprises.

Direct privatization is the most often used form of ownership transformation of state-owned enterprises in Poland. Its popularity -

especially in the initial period of transformation - resulted from effective motivation directed to employees. A perspective of being an owner - without bearing too high costs - caused relatively high acceptance of privatization between employees.

However, both between politicians and in scientific circles, direct privatization caused serious controversies and misgivings. It was underlined that there exist a danger that in enterprises privatized through direct privatization (especially in employee partnerships), different negative phenomena will occur. It was pointed out that in employee partnerships:

- current consumption (salaries) will be excessively preferred and this will have negative impact on long term effectiveness (investments)
- there will be not inflow of external capital (especially of strategic character) as managers-co-owners will not let in external investors being afraid of loosing of their jobs
- there will be not any rotation on top management posts as managers with big number of shares (sometimes with control packets) will not want to resign their position
- rationalization of employment will be difficult as employees-owners will not accept dismissals.

Empirical research conducted in the years 1997-1998 in 200 Polish enterprises directly privatized gives some information that make it possible to answer these questions. They also enable the analysis of economic effects of direct privatization.

The structure of investigated sample was as follows: the most popular were manufacturing enterprises, especially from light and food industries (33% of the total sample). Share of building and construction was also high (29,5%), then went trade (18,5%) and services (17,0%).

Generally, it may be admitted that the whole sample was chosen in such a way that it reflected in a proper way the structure of the economy. Therefore, conclusions formulated on a basis of conducted analysis can be

generalized and can refer to the wider area of economic activity that that investigated during the research.

Collected data enabled to identify criteria that were taking into account when a form of privatization was chosen.

Leasing (3.7.1.3) was preferred in the following cases:

- 1) assets are of relatively low value that enables employee partnership to bear costs of their financing. This form of privatization hardly takes place in branches with high value of assets. This does not exclude, however, creation of employee partnership at „the edge” of such capital-consuming enterprises, but such partnerships do not take over basic part of assets
- 2) before privatization in an enterprise there existed possibility of gaining financial sources that enable to take over at least a part of a firm’s property by employees
- 3) employees and managers were interested in privatization, there were not serious conflicts caused by privatization initiatives (or other reasons)
- 4) there was a strong belief that there existed a real chance for maintenance or improvement of competitive market position of enterprises as well as that within following years high investment expenditures will not be needed.

In a case of sale of a whole or a part of state-owned enterprises’ property (3.7.1.1 article) conditions were slightly different:

- 1) enterprise’s sector (branch) identity was not of much importance
- 2) enterprise should soon realize large investments as without them it will not be able to keep its market position
- 3) purchase of an enterprise gives a possibility of entering potentially attractive segment of the Polish market
- 4) favorable localization of an enterprise

- 5) enterprise is a meaningful element of the investor's strategic conception
- 6) investor wants to take whole ownership rights in order to eliminate intervention of employees-owners or the State Treasury

Contribution of a whole or a part of state-owned enterprises' property to partnerships (3.7.1.2 article) is an attractive way of privatization when:

- 1) investor does not possess high enough financial sources for purchasing the enterprise
- 2) investor is not sure whether an enterprise will be successful in the future, therefore he does not want to take a whole risk
- 3) investor is not afraid that the State Treasury will interfere into his conceptions of management
- 4) the State Treasury states that due to specific features of an enterprise's activity (for example meeting social demands on the local market) some control in an enterprise should be kept, but it should be privatized to gain higher efficiency.

In most cases state-owned enterprises are sold as a whole. In the investigated sample contribution of a part of an enterprise took place only in 25 cases (12,5%). This referred mainly to employee partnerships (16 cases), in each of remaining forms of privatization it occurred very rarely (2-3 cases in each) and referred to large enterprises, from which less attractive parts of production or supervisory activity were isolated. External investors, employees as well as representatives of the State Treasury were interested in this form of direct privatization.

It was easy to find investors for these parts of state-owned enterprises' assets that were not too expensive. Investors (users) prepared conceptions of

reduction of costs, alternative use of assets, better adjustment of production to market demand.

Firms, that were created on the basis of state property, in most cases accepted the form of limited liability partnerships (125 firms) and also share partnerships (68 enterprises). There was not any significant differences in proportions between these legal forms for different paths of direct privatization.

Evaluation of attractiveness of different forms of privatization also takes into account period of time needed for completion of privatization process. In empirical research length of this process was calculated from the first written privatization initiative coming from an enterprise to date of registration of a partnership.

On the base of collected data, the following conclusions can be derived:

- 1) acceptance of a given form of direct privatization is not essential for length of privatization process. Time of privatization is similar in each form of privatization.
- 2) Two thirds from amongst privatized enterprises was privatized in the period shorter than one year, and 28% of enterprises was privatized within half a year. Only in 7% of enterprises privatization process was longer than two years. Generally, these periods were not too long and they do not testify to indolence or incompetence of entities participating in privatization. Unclear property rights were one of the main causes of delays in privatization. This reason made privatization difficult especially at the beginning of transformation of the Polish economy.

Majority of investigated partnerships was registered in 1991 (32,0%), then in 1992 (18,0%) and 1993 (17,0%). In each of the next years 9-10% of investigated partnerships was registered. This distribution points out that the most favorable conditions for development of direct privatization were in the years 1991-1993. However, it should be underlined that it was an initial stage of privatization process, therefore there were relatively lots possibilities of

successful ownership transformations. Within following years a number of a relatively good medium-sized state-owned enterprises fulfilling privatization criteria was declining.

Implementation of privatization process depends on managers and employees of an enterprise. In most cases managers reported privatization initiatives and presented conceptions of transformation. The important problem was to gain acceptance of employees. In investigated enterprises managers were able to gain an acceptance of 70% of employees. Amongst different level of management interest in privatization was higher and amounted to 90%.

Generally (80% of cases) workers' councils had positive attitude towards privatization. Only in one enterprise (from amongst 200 investigated) negative attitude of workers' council made privatization very difficult. Acceptation and co-operation of trade unions was more difficult to gain (half of enterprises). However, hostility occurred only in a few cases. Summing up, it can be acknowledged that in enterprises a favorable climate for privatization was created and visible conflict were avoided.

Half of privatized enterprises did not receive any external support during privatization, except of favor of founding body, Ministry of Ownership Transformation, Treasury Ministry or local authorities. Over one third of enterprises was supported by firms specialized in advisory activity and pricing of assets. Such a low share of external advisory firms resulted mainly from lack of financial sources.

Generally, there is no doubt that for economic and social reasons it is desirable to join employee, management, and ownership functions. It is usually assumed that in employee partnerships there are favorable conditions for it. This evaluation does not rather refer to other forms of direct privatization. Presented results of research confirm veracity of this opinion on employee partnerships, but at the same time they give arguments for a thesis that also remaining forms of direct privatization are conducive to process of joining the roles of an owner, manager, and employee.

Collected data points out that direct privatization is characterized by dispersion of ownership and its availability for many groups of legal and physical persons, including foreign ones. It should be underlined that in investigated sample no type of owner did not receive absolute majority of shares (table 1).

Table 1. Ownership structure of partnerships directly after privatization and in a half of 1998 (in %)

Shareholders	Form of privatization							
	3.7.1.1 article		3.7.1.2. article		3.7.1.3. article		other solutions	
	a	b	a	b	a	b	a	b
1) Main investor	15,4	23,9	32,2	36,7	5,0	6,8	26,8	23,9
2) Remaining domestic investors, including:	17,1	20,3	25,3	36,1	5,1	14,9	22,1	16,4
a) private firms	0,3	0	0	0,5	0	1,8	14,0	6,4
b) state-owned enterprises	2,2	1,7	0,1	0,2	0	0,6	0	2,8
c) private banks	0	0	0	0	0	0	0	2,1
d) state-owned banks	0	6,1	4,3	2,6	0	0	0	0,5
e) State Treasury	3,9	2,2	13,5	9,5	0	0	6,6	0,0
f) physical persons	3,8	2,7	1,7	2,7	2,6	2,7	0	1,0
g) others	6,9	7,6	5,7	20,6	2,5	9,8	1,5	3,6
3) Remaining foreign investors	0,4	2,0	2,5	2,4	0	6,2	0	4,9
4) Supervisory Board members	7,5	4,0	4,9	1,7	11,6	7,9	17,4	5,9
5) Top managers	14,4	24,0	10,6	8,9	16,2	16,5	11,3	25,7
6) Other managers	11,2	4,8	2,3	0,8	12,4	14,5	5,1	6,7
7) Employees	34,0	21,0	22,1	13,4	49,7	33,2	17,3	16,5
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

a - directly after privatization; b- in a half of 1998

Source: own calculations

Significant participation of employees in ownership is visible. Directly after privatization they possessed nearly a half of shares in employee partnerships, over one third in sold enterprises, and about one fifth in remaining firms. Significant part of shares remained in hands of top managers, supervisory boards members and other managers (20-40%). This confirms a key role of these groups in privatization process.

Ownership structure of privatized firms is subject to changes. Tendency towards increase of shares in hands of top managers as well as external

investors (large and small, mostly domestic) is visible. Employee ownership is declining, as well as (however with lower speed) ownership of lower levels managers and board members.

Taking into account these changes, a thesis about dispersion of ownership still comes true. No group of owners has absolute majority of shares. Increase of a role of top managers (they have more and more shares) points to their belief about further successful activity of their firms. Financial engagement increases their motivation what may positively influence the future of their firms.

Assumptions that direct privatization (especially in a form of employee partnerships) weakens a process of rotation of managers (mainly top managers) came true. This is connected with their strong position in ownership structure. Over three fourth of presidents of top management they are managers from state-owned enterprises which were privatized with use of direct method. Managers continue their job in the same firm at the same post, and they are important shareholders. It impedes inflow of specialists who can effectively manage a firm in conditions of market economy.

The main elements of financial motivation of managers are salaries, shares, and dividends. Premiums paid on profit are of significantly less importance (the highest amount of such a premium amounts only to a few % of net profit). Dividends were paid in about 40% of partnerships. Share of dividends in net profit for the whole sample amounted to: in 1993 - 31%, in 1994 - 23,3%, in 1995 - 19,5% and in 1997 - 19,1% (table 2). This is significant share, but it has declining tendency, which points at reduction of consumption pressure.

Table 2. Share of dividends in net profit (in %)

Forms of privatization	1993	1994	1995	1996	1997
3.7.1.1 article	21,1	13,2	16,1	12,8	17,0
3.7.1.2 article	28,5	32,0	2,8	27,3	20,2

3.7.1.3 article	35,4	32,0	28,5	27,3	20,2
Other solutions	18,9	21,8	37,6	19,3	6,8
Total investigated sample	31,0	23,3	19,5	21,4	19,1

Source: own calculations

Table 3. Average monthly gross salary (including premiums on profit)

Employee groups and forms of privatization	1992	1993	1994	1995	1996	I-VI 1997	I-VI 1998
Top management							
3.7.1.1 article	1243	1539	1883	2642	4001	4168	4128
3.7.1.2 article	1454	1818	1610	2572	3169	3829	3915
3.7.1.3 article	1251	1505	1964	3116	3929	4337	5437
other solutions	1687	1986	2317	4229	4670	5404	5583
White collar workers							
3.7.1.1 article	435	505	628	835	1025	1124	1239
3.7.1.2 article	357	583	837	930	1145	1194	1326
3.7.1.3 article	431	499	626	880	1150	1231	1364
other solutions	437	433	532	728	893	1045	1422
Blue collar workers							
3.7.1.1 article	316	383	477	560	845	800	947
3.7.1.2 article	310	360	478	562	736	757	1087
3.7.1.3 article	311	351	448	613	746	856	1122
other solutions	306	354	398	518	644	750	1005
Total							
3.7.1.1 article	421	502	592	732	944	1046	1231
3.7.1.2 article	474	566	733	821	953	1071	1155
3.7.1.3 article	398	476	606	832	1171	1269	1375
other solutions	360	476	563	733	851	961	1200

Source: own calculations

Table 3 presents data on monthly average gross salaries together with premiums on profits in the years 1992-1998 for different forms of direct privatization and different groups of employees. Data shows that in analyzed period top management salaries grew faster than average salary. The highest speed of growth in top managers' salaries was in employee partnerships (434,6%), and the lowest in privatized according to 3.7.1.2 article (269,2%). In this period in most cases distance between salaries of top managers and blue collar workers increased: in partnerships privatized according to 3.7.1.1 article it amounted to 1:3,9 in 1992 and 1:4,4 in 1998; in partnerships privatized according to 3.7.1.2 article it was respectively 1:3,9 and 1:4,4; in

partnerships privatized according to 3.7.1.3 article 1:4,0 in 1992 and 1:4,9 in 1998; and in other forms of direct privatization 1:4,6 and 1:5,6. Increase of distance should be treated as positive phenomena; however, differences are still to low. They should visibly raise, especially in partnerships with good financial standing.

Level and dynamics of wages in investigated partnerships is similar to other sectors of the economy. Low is share of employees in premiums on profit. Premiums and rewards do not exceed 2-3% of net profit.

In the investigated sample the most characteristic is significant share of employees in ownership structure and wide range of this phenomena. Data form table 4 shows numbers of employees-owners in different forms of direct privatization.

Table 4. Employees possessing shares during privatization process and during investigation (in %)

Percentage of employees possessing shares	Form of privatization									
	3.7.1.1 article		3.7.1.2. article		3.7.1.3. article		other solutions		Total	
	a	b	a	b	a	b	a	b	a	b
0%	17,1	16,1	30,0	30,0	0	3,0	33,3	33,3	11,5	12,5
to 10%	1,6	3,2	0	0	0	2,0	0	0	0,5	2,0
10-30%	0	9,7	5,0	0	0	8,0	5,5	0	1,0	7,0
30-50%	6,5	9,7	0	5,0	5,0	8,0	0	5,6	4,5	8,0
50-70%	12,9	11,3	10,0	15,0	13,0	20,0	0	11,1	11,5	16,0
70-90%	12,9	14,5	5,0	10,0	17,0	16,0	22,2	11,1	15,0	14,5
over 90%	21,0	8,1	25,0	10,0	29,0	10,0	11,1	5,6	24,5	9,0
lack of data	27,4	27,4	25,0	30,0	36,0	33,0	27,8	33,3	31,5	31,0
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

a - during privatization; b- during investigation

Source: own calculations

Number of employees-shareholders has been changing, however sale of shares is not rapid and do not occur in each firm. Data collected in 71 partnerships indicates that in 59 cases more blue collar workers sell shares

than buy them, but in 12 partnerships the situation was opposite. In a group of white collar workers (administration) there is domination of purchase than sale (data from 73 firms shows that in 43 partnerships they bought more than sold; in 30 there was opposite situation). Visible domination of sale of shares was in a case of employees leaving their jobs (94 cases from amongst 95 firms).

There is no doubts that dynamics of ownership changes in partnerships is influenced by limitation of buying-selling transactions defined in the firms' statutes. There were not any limitations only in 36 partnerships. Results of the research allows to conclude that limitations do not have significant impact on intensity of transactions, they rather cause their delay, but in most cases it does not exceed one year.

One of the main aim of research was verification of hypothesis about positive impact of direct privatization on change of employee status and going beyond narrow scheme of hired worker (labor). Results of research proved that these possibilities are used, however the range of changes is more narrow than potential possibilities.

In investigated partnerships relatively high safety of jobs was visible. Level of employment did not change in a way that could be treated as basic threat for employees. In recent years in employee partnerships employment has been growing (table 5). At the same time investigated partnerships gain relatively high dynamics of production growth and financial results not worse than average ratios for the whole economy. This means that there is not hidden unemployment, effectiveness of labor is relatively good and employees have relatively high salaries.

Table 5. Average number of employment in investigated firms

Years	Forms of privatization			
	3.7.1.1 article	3.7.1.2 article	3.7.1.3 article	Other solutions
1993	227	159	211	299
1994	215	214	205	342

1995	172	259	182	324
1996	216	259	190	310
1997	172	221	204	257
30.06.1998	161	220	236	255

Source: own calculations

Four areas of financial standing: liquidity, turnover, financial leverage and profitability were subject to analysis of economic efficiency of partnerships.

Average inventory turnover (costs of used materials to average stock of materials) is relatively high in investigated firms. Average period of one cycle of inventory turnover has increased recently (table 6).

Table 6. Turnover ratios

Turnover ratios and forms of privatization	1993	1994	1995	1996	1997	Half of 1998
A. Average inventory turnover	8,44	8,52	8,66	7,81	11,68	12,3
3.7.1.1 article	6,06	3,52	6,17	4,97	5,15	2,48
3.7.1.2 article	8,32	7,81	9,46	7,78	8,43	3,03
3.7.1.3 article	3,81	2,96	11,16	13,02	5,97	7,14
other solutions	7,49	6,49	8,94	8,12	9,09	3,90
Whole investigated sample						
B. Receivables turnover						
3.7.1.1 article	7,94	8,77	6,61	6,34	11,27	4,80
3.7.1.2 article	7,17	8,63	11,79	10,10	12,07	5,07
3.7.1.3 article	5,82	6,53	6,48	5,72	8,82	3,90
other solutions	3,78	8,42	9,73	10,15	4,99	2,50
Whole investigated sample	5,90	7,62	7,38	6,85	8,88	4,00
C. Payments (liabilities) turnover						
3.7.1.1 article	3,34	3,83	3,68	3,65	6,48	3,10
3.7.1.2 article	1,27	3,40	4,45	3,66	5,61	4,10
3.7.1.3 article	3,46	4,06	3,85	3,38	7,30	3,40
3.7.1.3 article	2,83	6,65	8,42	8,68	8,16	3,20
other solutions	3,17	4,26	4,37	4,03	6,97	3,40
Whole investigated sample						

Source: own calculations

During the whole investigated period materials amounted to 30% of the total inventories. This share is high, taking into account low turnover of inventories.

Share of final products (this refers especially to employee partnerships) as well as half-finished products (mainly in partnerships that were created as a consequence of contribution of a whole or a part of state-owned enterprises' property to partnerships) is also high. It points at difficulties with finding customers, however, it can not be said that situation of investigated firms is difficult.

Analysis of receivables turnover ratio (relation between value of sold products and services to receivables) points that the improvement of in this area is not regular. Collection of receivables prolonged to two months in firms privatized on 3.7.1.1 article and in employee partnerships, while in remaining partnerships it was shortened to almost one month. In all kinds of partnerships efficiency of collection of receivables is higher than ability to paying liabilities. At the beginning of investigated period in all kinds of partnerships there were serious delays and difficulties with paying liabilities. Later the situation improved, and in a consequence the ratio of rotation of receivables was shortened from 114 days in 1993 to 89 days in 1996. The lowest progress took place in employee partnerships.

Only a small part of total liabilities can be treated as overdue. It is visible that a part of debtors is treated with higher priority. They are banks and state budget. In this case overdue liabilities amount from a few to at last a dozen or so percent.

In the analysis of financial leverage two ratios were subject of calculation: total debt ratio and relation of liabilities to equity (table 7).

Table 7. Financial leverage ratios

Ratios and forms of privatization	1993	1994	1995	1996	1997	Half of 1998
A. total debt ratio						
3.7.1.1 article	0,7	0,6	0,5	0,5	0,5	0,6
3.7.1.2 article	1,1	0,7	0,3	0,4	0,4	0,4
3.7.1.3 article	0,8	0,7	0,7	0,7	0,7	0,5
other solutions	0,6	0,4	0,3	0,3	0,4	0,3
Whole investigated sample	0,7	0,6	0,5	0,5	0,6	0,5

B. Liabilities to equity						
3.7.1.1 article	2,1	1,7	1,1	1,1	1,1	1,4
3.7.1.2 article	-11,0	2,6	0,4	0,6	0,6	0,6
3.7.1.3 article	3,3	2,6	2,0	2,0	1,5	1,2
other solutions	1,6	0,5	0,4	0,4	0,7	0,4
Whole investigated sample	2,5	1,5	1,0	1,0	1,2	1,0

Source: own calculations

Total debt ratio decreased in the whole sample from 0,7 in 1993 to 0,5 in 1998. This ratio was the highest in employee partnerships: 0,8 in 1993 and 0,7 in further years (only in 1998 - 0,5). This is connected for example with burden of leasing installments in employee partnerships.

Relation of liabilities to equity amounted to 2,5 for all investigated partnerships in 1993 and 1,0 in 1998. This means that at that time visible growth of equity in financing the firms' operations took place.

Financial standing of the firm is in the best way mirrored by profitability ratios, showing relations between financial results and value of sales, assets or equity (table 8).

Table 8. Profitability ratios (in %)

Ratios and forms of privatization	1993	1994	1995	1996	1997	Half of 1998
A. Return on sales						
3.7.1.1 article	25,9	15,4	11,6	17,0	9,0	6,2
3.7.1.2 article	5,8	13,4	1,3	10,8	7,0	6,3
3.7.1.3 article	12,8	9,5	9,6	0,3	6,9	3,7
other solutions	28,1	28,3	17,6	6,0	8,0	6,7
Whole investigated sample	19,8	15,4	11,1	7,0	6,8	4,0
B. Operating margin						
3.7.1.1 article	8,4	6,9	5,7	5,4	5,0	4,9
3.7.1.2 article	-2,4	8,8	3,1	-0,5	2,1	2,2
3.7.1.3 article	8,7	6,5	6,9	8,2	5,0	0,9
other solutions	9,1	7,8	5,6	7,0	3,8	4,5
Whole investigated sample	8,0	7,0	6,0	6,5	5,0	1,8
C. Gross profit margin						
3.7.1.1 article	7,8	7,0	6,4	6,8	1,3	1,1
3.7.1.2 article	-9,4	3,3	10,1	2,5	3,8	2,8
3.7.1.3 article	7,7	7,5	6,5	6,9	6,1	3,1
other solutions	6,4	8,4	7,1	9,0	3,9	2,7
Whole investigated sample	7,2	7,3	6,9	6,9	5,0	2,7

D. Net profit margin						
3.7.1.1 article	3,6	3,0	3,9	4,1	1,1	0,3
3.7.1.2 article	-11,4	-1,0	7,9	1,3	2,8	1,4
3.7.1.3 article	4,2	3,8	3,1	3,8	3,7	1,9
other solutions	2,1	4,8	4,4	5,7	2,3	0,7
Whole investigated sample	3,3	3,5	3,9	4,0	2,9	1,5
E. Return on assets						
3.7.1.1 article	6,2	5,7	7,7	8,3	1,9	0,3
3.7.1.2 article	-12,6	-1,3	8,3	1,5	1,2	1,0
3.7.1.3 article	7,9	8,5	7,3	8,8	8,0	2,3
other solutions	3,1	6,9	7,1	10,6	4,2	0,4
Whole investigated sample	5,7	6,6	7,5	7,9	5,6	1,6
F. Return on equity						
3.7.1.1 article	19,3	15,7	14,1	17,4	4,0	0,8
3.7.1.2 article	26,0	-4,6	10,6	2,4	1,8	1,6
3.7.1.3 article	33,7	30,2	16,9	26,6	18,2	5,2
other solutions	8,0	10,7	9,2	14,3	6,8	0,6
Whole investigated sample	20,1	16,8	12,8	16,1	11,4	3,2

Source: own calculations

In the years 1993-1994 return on sales in the investigated sample amounted respectively to 19,8% and 15,4%. In the next years a declining tendency appeared, to 4,0% in 1998. Number of partnerships with negative return on sales increased, from 9,5% in 1993 to 18,5% in 1997. Relatively high share of employee partnerships amongst these firms was visible.

There are the following causes of this unfavorable tendency: growing competition on domestic market as well as insufficient efficiency of adaptive and restructuring processes.

Operating margin is the ratio that takes into account the whole area of economic activity of a firm. In investigated partnerships it was, for different forms of privatization and different years, lower (sometimes by a few percentage points) than return on sales and also had declining tendency (from 8% in 1993 to 1,8% in 1998 on an average). The lowest operating margin was in 1998 in enterprises privatized on 3.7.1.3 article (0,9%) and partnerships created on the basis of 3.7.1.2 article (2,2%).

In analysis of financial ratios gross and net profit margins are very often used as they react faster on changes in own costs than on changes in sales.

Collected data indicates that gross profit margin in investigated period declined from 7,2% in 1993 to 2,7% in 1998. Net profit margin was by a few percentage points lower. It had growing tendency in the years 1993-1996 (from 3,3% to 4,0%). In the next years a drop in net profit margin took place, to 1,5% in 1998.

It should be underlined that gross and net profit margins in investigated partnerships were higher than analogous ratios for the whole manufacturing sector in Poland. However, these differences have been diminishing. This should incline employee partnerships to higher efficiency in order to keep a competitive advantage on domestic market.

From a detailed analysis of partnerships with negative or low positive profitability (between 0 and 0,9%), according to kind of activity and size of companies, it can be concluded that in part of these firms real financial standing is better than that presented in formal statistical documents. It seems that a part of firms presents worse financial data to avoid paying higher taxes. They use, among other things, possibilities of including current losses into the next tax year. Relatively high share of small and medium-sized partnerships (with employment lower than 100 persons) in a set grouping partnerships with the worst financial results testifies to it. Small partnerships (especially in trade, services, advisory, financial services, and construction) have significant possibilities of double accounting, lowering of turnovers, manipulating with costs of advertising, business trips, etc.

In complex analysis of partnerships' activities relation between net profit and assets is of much importance. In the years 1993-1996 return on assets increased from 5,7% to 7,9%. This testifies to restructuring of essential areas of firms' operations. In 1997 this trend broke down. In first half of 1998 return on assets ratio amounted only to 1,6%.

From the viewpoint of owners very important is relation between net profit and equity (ROE). Return on equity ratio in the whole investigated sample decreased from 20,1% in 1993 to 11,1% in 1997, and in 1998

dropped to 3,2%. This is of course unfavorable tendency. However, it should be taken into account that declining tendency is much more visible in the whole enterprise sector and is a result of the more and more difficult external conditions (strong competition, restrictive credit policy, liquidation of donations) as well as slowness of restructuring processes at the microeconomic level.

In spite of some troubles majority of partnerships did not allow for worsening of their competitive advantage, and share of investigated firms in the domestic market has not generally changed since beginning of their activity. Stability in such a difficult period should be treated as success, however only partial and indicating that operations of partnerships were directed to survival rather than to expansion. Among other things, analysis of export activity in investigated partnerships testifies to it (table 9).

Table 9. Share of export in sold production in investigated partnerships (in %)

Forms of privatization	1993	1994	1995	1996	1997	Half of 1998
3.7.1.1 article	4,3	8,2	11,2	6,9	5,2	4,8
3.7.1.2 article	24,4	14,8	13,8	14,2	15,3	26,6
3.7.1.3 article	9,5	4,0	3,8	4,0	7,3	6,4
Other solutions	26,9	10,9	9,8	7,8	18,2	22,7
Total investigated sample	10,8	7,4	8,1	6,6	8,5	9,5

Source: own calculations

Role of exports is treated rather as complementary, allowing for maintenance of production on a level that does not cause significant dismissals when domestic demand is low. Share of exports in sales is rather low (7-10% in particular years) and is lower than average share for the whole sector of enterprises. Only every third enterprise exports its production and a number of firms selling on foreign markets has not changed.

Over four fifths of investigated exporters is convinced that they take average world prices for their products. But at the same time almost three fifths is of opinion that sale on domestic market is more profitable than sale abroad.

Basing on collected statistical data and opinions it can be acknowledged that: a) investigated partnerships have a level of quality production high enough to receive export prices similar to those received by suppliers from other countries, b) high costs of activity make it impossible to gain satisfactory efficiency on exports. It is easier to gain higher profitability selling on domestic market (especially in a case of producers with strong position on local markets).

Over a half of partnerships entered new segments of domestic market which testifies to preferential treatment of domestic market. Firms that in recent years implemented important product innovations and significantly changed their production structure mainly succeeded. In the years 1994-1997 share of new products in total revenues amounted from ten to about fifteen percent, and share of modernized products from about fifteen to thirty percent. Quality of products improved significantly, also in a case of those that were not subject to modernization.

Investigated enterprises were able to take strong investment efforts. Restitution of assets ratio (investment expenditures to depreciation) as a rule exceeded 1 (excluding a year 1995). Significant part of expenditures was invested in raising production capacities that points at optimistic evaluations of possibilities of selling products and entering new markets. As a consequence of investments a degree of depreciation of fixed assets decreased from 56,5% in 1993 to 45,1% in 1997.

Misgivings were not confirmed that direct privatization may weaken incentives to invest and may negatively influence long run position of enterprises. It occurred that employee partnerships have, as partnerships with foreign capital share, the highest ability to invest.

The main source of financing investment activities in investigated firms is own capital. Share of credits is too low (about 20%). It occurs however, that in analyzed partnerships share of external sources in financing investments is similar to share of external financing in other groups of enterprises. Therefore, this situation can hardly be defined as specificity of firms directly privatized, especially employee partnerships. Data collected in investigated firms allows to state that they use less external capital than other entities in enterprises sector.

The highest priority aim in enterprises privatized with use of direct method can be formulated as follows: do not go to bankruptcy, to get stronger and to get ready for more active operations directed at improvement their competitive position on the market, especially domestic. Generally, this aim has been realized. This is not too little ambitious task, taking into account difficult or very difficult economic position of many partnerships. Direct privatization facilitated use of internal reserves in enterprises. However, external financing is still lacking, which limits possibilities of investment expansion.

General evaluation of economic efficiency of direct privatization can be formulated as follows:

- 1) Partnerships created in a result of direct privatization generally possess ability to survive, and significant part of them strengthened their financial and market positions
- 2) Results of activity are not worse, and in some case even better (for example investments, production, profitability) than in other groups of enterprises
- 3) Hitherto experiences point out that direct privatization should be treated as important - also in the future - way of ownership transformation.

