

## Privatization Model in Poland: Commercial or Social?

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### Abstract

*The aim of this work is to answer the question of how the process of privatization proceeded in Poland between 1990 – 2012 and what its characteristic features were. There are five basic methods of ownership transformation of state-owned enterprises delineated in this work: the capital procedure, the procedure of liquidation in the legal sense, the procedure of liquidation in the economic sense, the contribution of shares to National Investment Funds (NIF), the banking settlement procedure (BSP). Privatization was not the aim in itself, but a means to achieving widely-understood management effectiveness. The model of privatization launched in Poland was primarily characterized by the allocation of the privatized capital through market mechanism and the participation of the society in the process of ownership transformation. Thus, this model may be referred to as the commercial-social model. This work provides main reasons for the occurrence of such a model: an incredibly strong, historically-bound position of trade unions, lack of adequate capital in the hands of domestic investors, no adequate examples of big-scale privatization in the countries that could be good points of reference for Poland.*

**Key Words:** privatization of state-owned enterprises, ownership transformation, Eastern European Countries

### 1. Introduction

The process of privatization constituted – apart from liberalization and stabilization – one of the major elements of the system transformation in Central and Eastern European Countries. At the end of the 1980s, participation of the state sector in the production of the national income constituted 82% in Poland, 86% in Hungary, 87% in Yugoslavia, 96% in the Soviet Union, 97% in Czechoslovakia. At an early stage of transformation, there were 8453 state-owned enterprises in Poland, whereas in 2012 that number plummeted to a mere 70 enterprises. This meant an incomparably wider scope of the so-called transformational privatization. It shall be highlighted that the aims of privatization depend on the condition of the economic environment. In countries where the market economy is well-shaped, with a considerable advantage of the private sector, the aims of privatization are limited only to broadening the scope of private property. On the other hand, in centrally-governed countries, privatization of state-owned enterprises focused on the realization of the fundamental aims, i.e. transforming the economy and increasing the performance of management. Furthermore, former planned economies, including Poland, have to cope with the construction of new political, financial and legal infrastructure. However, they should primarily convince their societies that privatizing the public sector would mean transferring the power to manage and the responsibility for both the economy and their own fate.

The time that has passed since the beginning of privatization in Poland allows for making an analysis and assessment of different aspects of ownership transformation in this country (Lis 2009). The subject of the analysis are state-owned enterprises, since they were one of the elements of the Treasury assets. A state-owned enterprise is defined as an independent, autonomous, and self-financing body which has legal personality. This work refers mostly to the number of state-owned enterprises privatized so far, methods and models of ownership transformation that were used, intended goals of the privatization, as well as social assessment of the process. Thus, the aim of this work is to answer the question of how the privatization in Poland proceeded in 1990 – 2012 and what the characteristic features of it were.

## 2. Procedures of ownership transformation of state-owned enterprises in Poland

The main principles and lines of privatization in Poland have been included in the following acts: the Act of September 25, 1981 on State Enterprises, the Act of July 13, 1990 on Privatization of State Enterprises, the Act of February 3, 1993 on Financial Restructuring of Enterprises and Banks and the change on certain other acts, the Act of April 30, 1993 on National Investment Funds and their privatization, the Act of August 30 1996 on Commercialization and Privatization of State Enterprises. On the basis of these acts, Ministry of the Treasury applied five basic procedures of ownership transformation of state-owned enterprises: 1) capital method. 2) liquidation in the legal sense, 3) liquidation in the economic sense, 4) contribution of shares to National Investment Funds (NIF), 5) banking settlement procedure (BSP). Some of the methods comprise precisely specified techniques of ownership transformation. Figure 1 illustrates the division of the main privatization methods in Poland.

**Capital privatization** (known as indirect privatization in the Act on Commercialization and Privatization of State Enterprises) is the primary privatization path of medium sized and large enterprises usually employing over 300 people. The main point of this type of privatization is a two-stage process of ownership transformation. First, a state enterprise is commercialized, i.e. share capital is created from the enterprise's funds, divided into a given number of shares which are taken over by the Treasury. Thus, the founding supervisory body is replaced with the ownership supervisory body as a result of the creation of a sole-shareholder company of the State Treasury. In stage two – proper privatization – the Treasury ceases to be the sole shareholder of the company. It takes place after making shares available to external investors who can purchase them by way of: a publicly announced offer, concerning mostly big enterprises with a good economic-financial standing, public tender, concerning smaller sole-shareholder companies of The State Treasury; it may consist in offer comparison or auction, a public invitation to negotiations, applied to the biggest and most important enterprises to the country's economy (Balkowski 1998). In every case of capital privatization, the entitled employees (as well as farmers and fishermen associated with the enterprise) have the right to purchase a given number of shares on favorable conditions.

The second procedure mentioned above is the **liquidation privatization in the legal sense** (known as direct privatization in the Act on Commercialization and Privatization of State Enterprises), which consists in disposing of all the financial components of a state enterprise by the Treasury. The direct character of this procedure results from the fact that there are no sole-shareholder companies of The State Treasury involved. Additionally, what distinguishes liquidation privatization (direct) from capital privatization (indirect) is the fact that the former is conducted by the founding organs on behalf of the Treasury and the Minister of the Treasury. The main goal of direct privatization is to provide tools for enabling fast ownership changes in state enterprises described as small or medium (Zwierzchlewski 1999a). That is why the Act of 1996 on Commercialization and Privatization introduced precisely specified conditions for the realization of liquidation privatization. Thus, the sale value in the year preceding privatization cannot exceed 6 million euro, whereas the amount of personal funds at the end of the year preceding privatization cannot go beyond 2 million euro. In some exceptions, however, the Council of Ministers may allow for direct privatization of an enterprise which does not meet the above requirements. The disposal of the financial components of a state enterprise as a result of liquidation privatization is carried out through: giving an enterprise for use against payment, sale of an enterprise, contribution of an enterprise into a company.

As can be seen in Figure 1, the sale of an enterprise technique of liquidation privatization in the legal sense has been further divided into two forms, i.e. equivalent sale and sale for a token. The latter form is applied when a state enterprise does not find a purchaser and is threatened by liquidation. Taking into account the fate of the employees, who would have a serious problem finding new employment, the enterprise may be handed over for a token by the organ responsible for the privatization in a given country to a person who can present a convincing plan for the restoration of the enterprise. Direct privatization in Poland is carried out with the account taken of obligations towards employees (keeping workplaces, welfare packages) and investments including environmental protection.

Another method used in the process of ownership transformation of state enterprises in Poland is **liquidation privatization in the economic sense**. This privatization method is applied on the basis of the Act of September 25, 1981 on State Enterprises. In subsequent amendments of July 19, 1991, the legislator precisely defined the situation justifying the economic factors which determine the basis for the founding organ's decision to start a liquidation process in the enterprise.

The liquidation procedure may begin when at least one of the following conditions is fulfilled: the profit of an enterprise after taxation is insufficient to pay obligatory dividend, through a final and binding court sentence or administrative decision the enterprise is banned from performing any previous activities; at the same time it has not taken up another area of activities, application for liquidation is put forward by the receivership, over a half of the overall value of the enterprise's assets is comprised of shares or other titles enabling participation in companies, or over a half of the assets has been given away to other persons on the basis of civil law agreements. There are four courses of action possible within the liquidation privatization in the economic sense: fragmentary sale of enterprise's assets, comprehensive sale of organized assets, sale of redundant assets and "healing" of the remaining part of the enterprise, leasing the enterprise

The liquidation privatization performed on the basis of the Act on State Enterprises may be treated as a form of denationalization of the assets of mainly small and medium enterprises. At the same time, due to the prolongation of liquidation activities, a considerable number of enterprises liquidized as a result of economic reasons has been included in bankruptcy proceedings. In this case, the liquidator representing the Treasury is replaced by the receiver (syndic) acting on behalf of the creditors.

The fourth basic procedure of privatization is the **contribution of shares to National Investment Funds (NIF)**. This was a conception of mass privatization, which reappeared in various forms since 1989 in Poland. The actual process of privatization by way of this method began after the Act of April 30, 1993 on National Investment Funds and their privatization had been passed. As a result, the Treasury created 15 NIF joint-stock companies in the form of sole shareholder companies of the State Treasury, which were governed by general assemblies, supervisory boards, and boards of directors. The Funds, however, were run by the managing companies created by the authorities of a given Fund. All NIFs were equipped with the shares of 512 previously commercialized "floor" companies in such a way that a single Fund received dominant interest (33 percent) in 34 or 35 companies (resulted from a division of 512 companies by 15 Funds), as well as petty (1,8 percent) interest in the other few hundred floor companies. The remaining shares were divided by the Treasury among itself (25 percent) and the companies' employees (15 percent). Thus, the NIF program worked on the assumption that instead of privatizing particular enterprises, it was better to privatize the Funds straightaway. At the same time, any Polish citizen who came of age by December 31, 1990 could purchase a shareholding certificate. The price of the certificate, which was regarded as a handling charge, was 20 PLN (Surdykowska 1997; Kostrz-Kostecka 1995). Every purchaser automatically became a participant in the program. Subsequently, certificates could be sold freely or exchanged for the shares of any NIF. The statutory aim of NIFs is to increase the value of shares in the companies in which they are the shareholders.

Finally, the main privatization method in Poland was the **banking settlement procedure (BSP)**. This procedure became a fundamental instrument of the financial restructuring of enterprises provided for in the Act of February 3, 1993 on Financial Restructuring of Enterprises and Banks and the change on certain other acts. The main aim of BSP was to lead a state-owned enterprise to restructuring and subsequent privatization. The privatization consisted in a replacement of liabilities into shares, as long as the creditors of an indebted enterprise were legal entities. Due to the fact that banking settlements concerned mostly the indebted enterprises with a difficult financial standing, both the founding organs as well as the management and employees were usually eager to accept this form of privatization. It seems that the employees' acceptance of this line of privatization stemmed also from the fact that in the case of possible conversion of the liabilities, the owner of the enterprise, e.g. banks, became known to the debtor. As a result, the employees' confidence in this form of transformation was high.

To conclude, it seems that BSP was a chance for restructuring many indebted enterprises (owing mostly to banks) which would have otherwise been probably liquidized. Simultaneously, it was the only transitional solution to deal with the so-called "bad debts" which appeared during the first years of Poland's transformation. According to the law, BSP could have been commenced by March 18, 1996. After that date, restructuring of the indebted enterprises was conducted according to the court settlement procedure.

### ***3. Condition and dynamics of ownership transformation***

At the beginning of ownership transformation in Poland, there were 8453 state enterprises (31 Dec. 1990). The dynamics of ownership transformation will be presented further in the work according to the above-mentioned methods.

### 3.1. Capital privatization, contribution of the shares of selected state enterprises into National Investment Funds, and banking settlement procedure

As has been already mentioned, the distinguishing feature of the capital procedure is a two-stage process of ownership transformation of a state-owned enterprise, i.e. commercialization and the subsequent proper privatization by making shares available to external investors. Table 1 presents data concerning the number of enterprises which were privatized with the use of the capital (indirect) method. In the case of capital privatization it often happens that selling shares by the Treasury is a multi-stage process, i.e. the Treasury first disposes of the minority interests in sole shareholder companies of the State Treasury. As a result, it is more difficult to point to a particular moment in which a state-owned enterprise becomes a (privatized) company. However, every such case of transformation is regarded as capital privatization by the privatization statistics in Poland (both the Central Statistics Office and the Ministry of Finance). This means that for a sole shareholder company of the State Treasury to be regarded as capital privatized by any numerical data, there has had to be a sale of shares to external investors without any condition concerning the number of shares being sold. This, of course, is justified when an active strategic investor appears in a given company. However, what raises doubts is the situation when the Treasury brings the minority interests of privatized enterprises into the stock exchange.

This work considers bringing shares of given companies into NIF and banking settlement procedure as two separate privatization methods, although they are classified as capital privatization (proper) by the statistical data concerning the privatization process. However, it has been assumed that this divergence does not hinder the understanding of the statistical material presented in this part of the work. As can be seen from Table 1, between 1990 and 2012, 1753 state-owned enterprises have been commercialized. By making shares available to external investors, the Treasury ceased to be the sole shareholder in 1276 companies. The process of making shares available consisted in bringing the shares of given companies into NIFs, using a publicly announced offer, public tender or public invitation to negotiations, as well as handing over the shares to external investors under BSP. Additionally, Table 1 draws attention to the fact that as many as 567 companies were included in capital privatization in 1996. Such a great number of privatized enterprises falling on that year is a result of the beginning of the NIF program that comprised 512 companies, which is classified as the proper privatization for these companies in the MF statistics.

### 3.2. Liquidation privatization in the legal sense

Liquidation privatization in the legal sense, i.e. direct privatization, included 2308 entities, which constitutes almost 38 percent of all privatized state enterprises. The dynamics of this type of privatization is presented in Table 1. Between 1996 – 2001 this method was dominant in the structure of privatized state enterprises. Subsequently, although the dynamics of ownership transformation in Poland has decreased, liquidation privatization in the legal sense continues to be one of the key methods of ownership transformation.

**Giving an enterprise for use against payment** is the most popular form of liquidation privatization in the legal sense in Poland. To carry out this technique, with some exceptions, there are two conditions concerning the value of trade and service activities and the amount of personal funds that need to be met. The main recipients of this form were supposed to be mainly the employees of state enterprises. That is why this kind of direct privatization was used most often to those enterprises that had a good financial standing and did not require increased expenditures in the initial stages of the process.

Another form of the liquidation privatization in the legal sense, with which it is mainly associated, is **the sale of an enterprise**. It is carried out by way of a public tender or negotiations (following a public invitation). The sale of an enterprise is applied for the most part to economically weak enterprises which require a rapid capitalization and access to new outlets. Of key importance here are the obligations of a purchaser, which are contained in the agreement and concern such aspects as payment conditions, investment plans, social package, protection of environment and cultural property.

The last kind of liquidation privatization in the legal sense is **the contribution of an enterprise into a company**. This action is taken by means of negotiations that follow a public invitation. It is assumed that shareholders other than the Treasury will provide an input of at least 25% of the initial capital. Additionally, a group of entitled workers, as well as farmers and fishermen have the right to make a free purchase of up to 15% of shares belonging to the Treasury in the company. However, it may happen that on the day of issuing a privatization order the only shareholders are the employees, farmers or fishermen.

In such a case they make a contribution to only 10% of the initial capital. The aim of this form of direct privatization should be the facilitation of restructuring of an enterprise. In sum, liquidation privatization in the legal sense is an effective procedure, which may be accounted for by the fact that the relationship between the number of approvals of MOT/MF to the number of state enterprises removed from the register is high (over 96%). This type of privatization was applied primarily to regional and local enterprises. The process was initiated and coordinated mainly by province governors (voivods) operating as the founding entity.

### 3.3. Liquidation privatization in the economic sense

The liquidation of state-owned enterprises (due to economic reasons, bankruptcy) was conducted in constantly unprofitable enterprises which showed no chance of improving their financial standing. In the majority of cases, the reason for a difficult financial situation of these enterprises was the loss of outlets, indebtedness to banks, increase in obligations to the national budget, to the Social Insurance Institution (ZUS), or to suppliers. At the same time they did not present any restructuring progress. The purpose of the liquidation was to lead to the closing of an enterprise and to fulfill the creditors' claims from the enterprise's assets.

It is important to highlight the complexity of the privatization process. This complexity is reflected by the realization of a vast array of privatization goals with the use of numerous methods and techniques of privatization. Additionally, the particular goals and methods used to attain them were applied with various intensity in the given period of time. This is illustrated in Table 2 where state-owned enterprises are grouped according to the privatization methods.

Out of 8453 enterprises recorded on 31 Dec. 1990, 5518 enterprises were privatized by 2012. The remaining entities: were handed over to the Agencies of the Treasury. The largest group among these entities consisted of state agricultural enterprises which were initially included into Agricultural Property Agency of the Treasury and subsequently liquidized; were declared bankrupt, put under liquidation, or supervised by the receivership; continue to be run as state-owned enterprises.

The state enterprises which did not undergo any ownership transformation by 31 Dec. 2012 can be categorized into three groups. Firstly, there are **business entities operating in market areas** without performing public tasks, which are in principle not limited by law in terms of commercialization and privatization. These entities are located under the authority of province governors (voivodes) or the Minister of the Treasury. A considerable part of this group constitutes 50 car transportation companies. These companies make up a half of the "big enterprises" supervised by province governors (voivodes). The second group is consists of **special enterprises** characterized by regulations or specific tasks. These enterprises are supervised by the Ministers of National Defense, Minister of Justice, and Minister of the Treasury. Their privatization capability is limited by safety requirements, and they undergo transformation by way of liquidation and insolvency. Among the enterprises supervised by the Treasury there are prison industrial workshops, lifeboat service, and diplomatic agencies service. Additionally, in the Silesia Province (Silesian Voivodship) the status of the state enterprise has been kept by such big regional infrastructure enterprises as waterworks and power engineering. The last group is made up of entities which have a legal form of an enterprise or a national bank granted directly by the statute. These are, for example, the Polish Post (Poczta Polska), 'Polish Airports' State Enterprise (PPL), and Bank Gospodarstwa Krajowego (BGK). The following institutions perform tasks defined by acts, and are supervised by the authorities indicated in the statute. Their possible transformation into companies has to be preceded by changes in the law.

The public sector has kept the dominant role in the employment and production in the following activities: electricity, gas, water supply and mining, has a significant role in transport, storage and communication, has a dozen percent or so share in financial intermediation. Thus, in these branches one may expect to see the greatest number and importance of state owned enterprises and companies. It is also common knowledge that in the sector of state-owned enterprises the dominant role is taken by a small number of disproportionately large entities. These features constitute the conditions for further privatization in Poland.

## 4. Assessment of privatization

There appears to be three main goals of privatization: increase of effectiveness of the Polish economy, increase in budgetary income, assertion of the participation of the society in the process of privatization of state-owned enterprises (Czekaj, Kowalski 2005). It seems that the above privatization goals became the basis for the choice of methods (instruments) enabling ownership transformation, which determined the dynamics of the privatization process. It has to be clearly stated, however, that these goals were not complementary.

Accordingly, both on the central and regional levels there appears a matter of the choice of the priority aim and particular privatization methods. The consequence of this is that ownership transformation was a multifaceted process which required all of the above-mentioned methods. Nonetheless, the general form of privatization in Poland was the sale of big companies which had a high market value (actual or potential) to external investors with the use of the capital method. Another most popular form of privatization was the liquidation of local small and medium companies both in legal and economic sense. Table 4 presents the relationship between the aims and methods of privatization.

As Table 3 indicates, the precisely specified privatization methods were supposed to realize aims concerning mainly the effectiveness (Zwierzchlewski 1999b). This conclusion should not be surprising though. If there is a political will to privatize state-owned enterprises, there must be a belief that its primary role is to transform the ownership structure of the economy to such an extent that particular elements (of an enterprise) will be able to exist and develop on a competitive, global market. Thus, privatization is not the aim in itself, but a means to achieving widely-understood management effectiveness. This effectiveness is usually cited as the first aim of privatization. To clarify, in this work the term 'effectiveness' is used above all in its classical, microeconomic sense. Effectiveness is a result of an economic activity, which is defined as a relationship between income and expenditure. With reference to the liquidation privatization in the economic sense, the term 'effectiveness' is used in a macroeconomic sense, which refers to the effective allocation of the resources in the entire economy.

The remaining main aims of privatization, i.e. the budgetary income and participation of the society, were also supposed to be realized through the specified methods, though the latter was realized only partially in the majority of cases. What follows is that the beneficiaries of the privatization of state-owned enterprises were above all the employees of these enterprises. They were granted precisely defined privileges. For example, the staff could purchase 20 percent of shares of the privatized enterprise within the entire capital method for half of their face value. Additionally, they had the right to choose their own representatives to the authority organs of the company. With time, the scope of these privileges was broadened. The entitled employees could obtain 15 percent of shares of the privatized enterprise for free. In turn, within one of the techniques of the liquidation privatization in the legal sense, i.e. giving an enterprise for use against payment (the so-called leasing privatization), the primary privilege for the employees was the ability to take over their enterprise in a non-tender way. In this case payment was done through leasing installments. In fact, this meant that the State granted some sort of a non-financial loan to the company, the repayment of which was arranged for many years. This was very beneficial from the point of view of these companies. Although the participation of the society as an aim was realized only partially, it may be accepted that the particular methods of privatization of state-owned enterprises in Poland provided favorable conditions for the broadening of ownership rights.

Taking into consideration the aims and methods of privatization, one may distinguish between two models of transformational privatization – **commercial** and **social** ones. As far as the **commercial model** is concerned, the main aim of privatization is restructuring of enterprises and improvement of their effectiveness. Market mechanism is used in this case as the preferred mechanism of allocation of the privatized enterprise's capital. Furthermore, the number of beneficiaries taking advantage of privatization is limited, and foreign capital needs to be employed when the national one is insufficient. The ideological justification for this conception is the assumption that people will not value the property when it is given for free. The proponents of this model stress the fact that the clarity of market methods is accompanied by additional benefits in the form of budgetary takings from the sale of shares or interests of privatized enterprises (Błaszczuk, Gruszecki, 1991).

However, this model may deepen social disproportions, which results in a decrease in the social support towards ownership transformation. The **social model** in its extreme form, on the other hand, boils down to giving away ownership titles to the national capital (vouchers, coupons, shareholders certificates). The more moderate form of this model amounts to the creation of conditions for obtaining the interests (shares) of privatized enterprises by specific social groups – the employees of those enterprises in the first place. The main determinants of this model are the achievement of socio-political aims, capital restrictions, and a belief in the necessity of quick privatization in the formal sense. One of the advantages of the model is a wide support of the changes in the political system through social participation in privatization. As for disadvantages, there is an excessive dispersion of shareholders and a resulting lack of proper supervision from owners, which may exert a negative influence on the achievement of the effectiveness and restructuring aims.

The shape of major privatization methods in Poland and the realization of not only the effectiveness and fiscal aims but also participation aims leads to a conclusion that neither of the models appeared in Poland in its pure form. Thus, in Poland one may refer to the **commercial-social model** in which the market allocation of the privatized national capital was accompanied by the possibility of preferential obtaining of ownership titles by the society (i.e. mostly by the employees of the privatized enterprises). At this point it is good to provide possible reasons for this peculiar dualism of models in the process of privatization in Poland. In particular, the reasons for the occurrence of the commercial-social conception. The most important factor for the occurrence of the commercial-social model seems to be the idea of self-government that is so deeply rooted in Poland. There are two major factors connected with the development of this idea. First of all, there is the Act of September 25, 1981 on State Enterprises<sup>1</sup>. According to this act, the general employee meeting and the works council became the main authority body of a state-owned enterprise. The works council could also appoint and dismiss a director of the enterprise after consulting the founding organ.

Additionally, the above act introduced the “3 x S” model to the enterprise. It stands for self-reliance, self-governing, and self-financing. First, self-reliance meant obtaining the freedom from any administrative authority intervention. Self-governing was understood as the participation of the employees in the board of directors through the institution of works council. Finally, self-financing would consist in the introduction of the economic account and the separation of the enterprise from the budget. Thus, the wide range of competences of the organs representing the employees resulted in the fact that the enterprises working under this act were often called self-governing – employee’s enterprises. The self-government solutions were generally accepted since they signified the search for an alternative to the centralist system (Jakubowicz 1989). Furthermore, there was a growing opinion that an enterprise could become actual property of the employees, which resulted in the increase in the number of employees’ participation claims. It also affected the writing of some privatization acts in Poland. On the other hand, depriving the employees of the ability to co-decide about the fate of their companies due to privatization could be perceived as a significant limitation of the already-obtained employee’s rights (Tomidajewicz 1993). The only form of compensation for the employees could be the precisely specified privileges associated with the process of privatization.

Another factor strengthening the idea of self-government were the institutional forms of support for the employee’s privatization. As early as in the second half of the 1980s, Stowarzyszenie Działaczy Samorządu Pracowniczego (the Association of Activists of the Employee’s Council) was founded and attracted the independent self-government movement (Kloc 1992). In practice, it was the first such institution which actively propagated the idea of employees’ participation. In fall 1989, another institution was created - Unia Własności Pracowniczej (the Union of Employee’s Property) – which fostered the development of employee’s shareholding. Its project of privatization assumed granting of great privileges to the employees of the privatized enterprises. The project contained a proposal for the creation of Fundusz Własności Pracowniczej (the Employee’s Property Fund) which was supposed to ensure financial support for the employee’s privatization. The funds were to be obligatorily created in all companies created under the transformation as a trust institution dealing with employee’s shares. In accordance with the project, the Fund would regulate repayment of the debt due to the employee’s privatization to the Treasury (Suwalski 1997). Preparing the project, the Union followed the model of the American Employee Stock Ownership Plan (ESOP). Although the stock plans did not receive approval from the then governing authorities, the institutions supporting the self-government movement exerted some influence on pro-employee regulations included in the privatization acts.

The reasons for the development of the commercial-social model may also be found in the natural conditions of the Polish economy. In the initial phase of reforms, the supply of the national capital put up for sale greatly exceeded the demand for this capital. It was estimated at that time that the supply part included ca. \$1 billion worth of goods, whereas the demand was not even to the tune of \$10 billion. Thus, free distribution of the state property or preferential treatment of the employees during the purchase of the shares of privatized enterprises softened the disproportions between the value of enterprises and the financial means of buyers. What is also important is the fact that at the beginning of the transformation of Poland’s economic system there were no adequate examples of big-scale privatization. The English model of capital privatization was hard to adopt since England had a very developed capital market and stable institutional environment.

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<sup>1</sup> *The Act of September 25, 1981 on State Enterprises*, Journal of Laws No.18 / 1981, item 80.

Moreover, privatization in England concerned just a few companies of greater or smaller importance to the economy. Thus, the originators of the Polish model of privatization were faced with the choice problems concerning practically all areas of privatization activities. As a consequence, the process of ownership transformation was made more flexible, the reflection of which was the use of both market and social conceptions in the process of privatization in Poland. However, the flexibility of this model led to the loss of its transparency. As a result, particularly at the local level, privatization was treated as a condition of the market economy. What followed was mass privatization of small and medium companies without any broader analysis of the conditions and consequences of these actions.

## 5. Summary

The intensification and acceleration of competition in the global economy has greatly influenced the idea that the private sector should be more efficient than the public sector. For that reason, from the beginning, privatization of state-owned enterprises in Poland was supposed to be one of the elements of the triad – stabilization, liberalization, privatization – which was the core of the economic system transformation. Even at the end of 1989 it was clear that the basis for the process of state-owned property transformation would be proper legislative instruments.

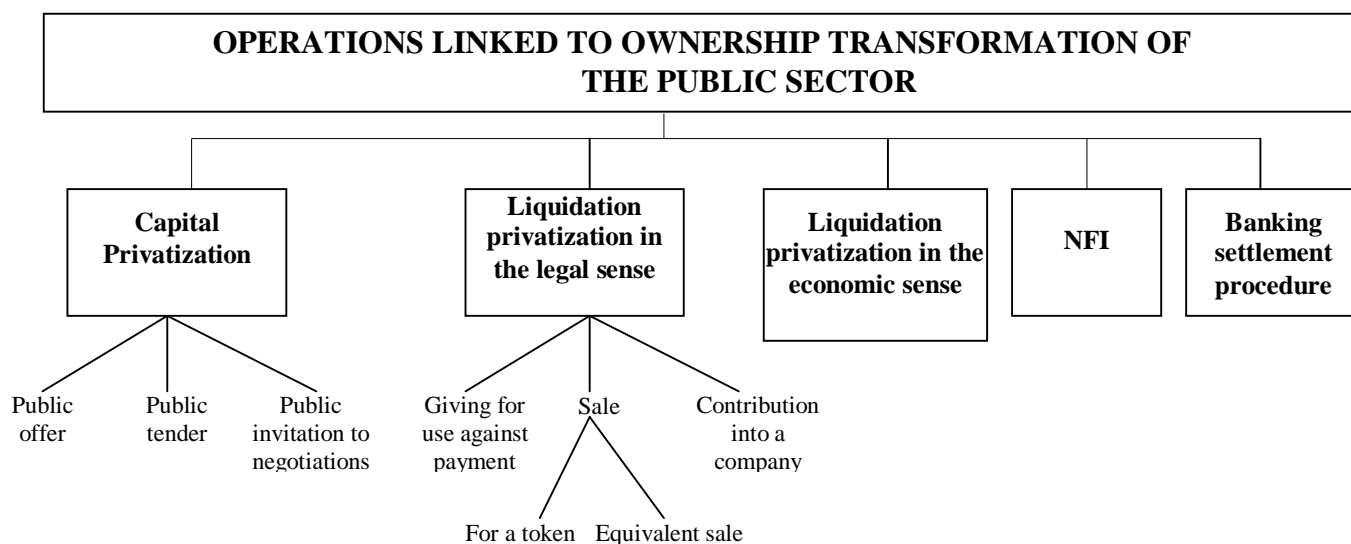
The model of privatization launched in Poland was primarily characterized by the allocation of the privatized capital through market mechanism and the participation of the society in the process of ownership transformation. Thus, this model may be referred to as the commercial – social model. This work provides three main reasons for the occurrence of such a model. First of all, a deeply-rooted self-government idea present in factories and enterprises and an incredibly strong, historically-bound position of trade unions have exerted a considerable influence on the shape of privatization acts, particularly in the area of the so-called pro-employee articles. Secondly, the realization of just the market model of privatization would encounter huge difficulties (in particular in initial stages of the system transformation in Poland) connected with the lack of adequate capital in the hands of domestic investors. Another reason for the occurrence of the commercial – social model is the fact that there were no adequate examples of big-scale privatization in the countries that could be good points of reference for Poland. In the light of these reasons, it was practically impossible in Poland to implement the model based solely on the market allocation of the privatized enterprises capital.

The society has a negative opinion of the process, claiming that it is not beneficial for the country and for themselves. This point of view stem from a number of reasons. The dominant belief holds that privatization was misused by politicians and officials for their own personal gains, thus the sale of state-owned enterprises was done dishonestly. The society also holds a negative opinion of the way in which ownership transformation was conducted in state enterprises, particularly the procedures and tempo of the changes. Worth noticing is the fact that although there is a positive influence of privatization on the economic effectiveness of companies, according to the society there has been a significant decline in the situation of the employees of the privatized enterprises, particularly in the field of employment security, welfare benefits, and wages.

Poland's accession to the European Union in May 2004 has become a symbolic conclusion of the transformation. The increasing participation of private enterprises in the economy, with a simultaneous decrease in the dynamics of ownership transformation in Poland, may be regarded as a valid justification for the above statement. What also seems to be of crucial importance is the strengthening of privatization processes in sectors normally considered as strategic in terms of their significance for the national security, i.e. in the sector of financial services, electric power engineering, mining, petroleum, chemical and defense (Mazurkiewicz 2009). The changes may also be noticed in the hierarchy of privatization aims. The main priority these days is to strengthen the Polish capital market and increase the competitiveness of the economy.

At an early stage of the transformation in Poland, there were 8453 state-owned enterprises. In 2012 that number amounted to a mere 70 enterprises. The target number of entities, in which the owner supervision will be exercised by public administration organs, is 47. This number encompasses companies which are of special significance for the economy, public radio and television broadcasting companies and cultural monuments. However, it does not mean that the discussion over privatization has come to an end. It only shifts from the field of production enterprises to the field of public services. Thus, it may be concluded that Poland has joined the group of well-developed countries with established market economies, simultaneously proving that the transformation era has ended.



**Figure 1. Main privatization methods in Poland**

Source: self-prepared.

**Table 1. Number of enterprises privatized in Poland between 1990 and 2012 with the use of capital method and liquidation method in the legal sense**

Years	Capital method		Liquidation privatization in the legal sense	
	Commercialization	Proper privatization	Approval of MOT/MF	Removal from the register of state enterprises
1990	41	6	32	3
1991	226	22	383	179
1992	222	23	281	302
1993	106	47	196	269
1994	221	36	131	184
1995	246	86	151	139
1996	131	567	197	204
1997	61	58	193	164
1998	118	41	135	145
1999	97	26	149	150
2000	37	26	164	152
2001	9	32	72	63
2002	12	22	44	67
2003	12	6	36	41
2004	23	11	52	57
2005	16	11	37	38
2006	9	6	10	24
2007	32	25	20	13
2008	78	10	14	16
2009	36	20	7	5
2010	10	97	0	5
2011	10	64	3	1
2012	0	34	1	1
<b>Total</b>	<b>1753</b>	<b>1276</b>	<b>2308</b>	<b>2222</b>

Source: prepared on the basis of the Ministry of Treasury data.

**Table 2. Privatized enterprises in Poland in 1990-2012 according to the privatization methods**

Years	Capital privatization + banking settlement procedure*	Liquidation privatization in the legal sense	Liquidation privatization in the economic sense	NIF	Total
1990	6	32	18		56
1991	22	383	517		922
1992	23	281	318		622
1993	47	196	226		469
1994	36	131	160		327
1995	86	151	144		381
1996	55	197	97	512	861
1997	58	193	60		311
1998	41	135	44		220
1999	26	149	57		232
2000	26	164	57		247
2001	32	72	53		157
2002	22	44	44		110
2003	6	36	35		77
2004	11	52	23		86
2005	11	37	31		79
2006	6	10	13		29
2007	25	20	10		55
2008	10	14	8		32
2009	20	7	8		35
2010	97	0	5		102
2011	64	3	4		71
2012	34	1	2		37
<b>Total</b>	<b>764</b>	<b>2308</b>	<b>1934</b>	<b>512</b>	<b>5518</b>

\* Lack of separate data on the capital and banking settlement procedures.

Source: prepared on the basis of the Ministry of the Treasury data.

**Table 3. Relation between the aims and methods of privatization of state-owned enterprises in Poland in 1990 – 2012**

Privatization methods	Privatization techniques	Privatization aims		
		Effectiveness	Budgetary income	Participation of the society
<b>Capital</b>	Public offer	+	+	~
	Public tender	+	+	~
	Invitation to negotiations	+	+	~
<b>Liquidation in legal sense</b>	Giving for use against payment	+	+	~
	Sale: - equivalent	+	+	
	- for a token	+		
	Contribution	+		
<b>Liquidation in economic sense</b>		+		
<b>NIF</b>		+		+
<b>Banking settlement procedure</b>		+		

Explanation: + full realization of aim, ~ partial realization of aim.

Source: self-prepared.

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