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Regional Processes of Ownership Transformations Against the Background of Investment Attractiveness of Provinces

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**REGIONAL PROCESSES OF OWNERSHIP
TRANSFORMATIONS AGAINST THE BACKGROUND
OF INVESTMENT ATTRACTIVENESS OF PROVINCES**

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Key words: indirect privatization, direct privatization, regional diversity, investment attractiveness of provinces.

A b s t r a c t

The paper aims at investigating the dependence between the investment attractiveness of provinces and differences in frequency of application of individual privatization methods in the provinces. The studies confirmed that frequency of indirect and direct privatization application in provinces determines to a certain extent the investment attractiveness of those provinces. Both methods in absolute terms were used most frequently in the regions characterized by very high or high investment attractiveness, and relatively the least frequently in the regions with of low attractiveness. The studies have shown that investment attractiveness of provinces is not the most important factor determining the choice of privatization method in the region, it depends heavily on the number of enterprises covered by transformations in a given province, structure and specific characteristics of the transformed entities and a number of other factors of social and economic nature.

**REGIONALNE PROCESY PRZEKSZTAŁCENŃ WŁASNOŚCIOWYCH
NA TLE ATRAKCYJNOŚCI INWESTYCYJNEJ WOJEWÓDZTW**

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Słowa kluczowe: prywatyzacja pośrednia, prywatyzacja bezpośrednia, zróżnicowania regionalne, atrakcyjność inwestycyjna województw.

A b s t r a k t

Celem artykułu było zbadanie zależności między atrakcyjnością inwestycyjną województw a zróżnicowaniem częstotliwości stosowania poszczególnych metod prywatyzacji w województwach. Badania potwierdziły, że częstotliwość stosowania prywatyzacji pośredniej i bezpośredniej w województwach w pewnym stopniu jest uwarunkowana ich atrakcyjnością inwestycyjną. Obydwie metody w ujęciu bezwzględny najczęściej były stosowane w regionach charakteryzujących się bardzo wysoką lub wysoką atrakcyjnością inwestycyjną, a stosunkowo najrzadziej w regionach o niskiej atrakcyjności. Badania wykazały, że atrakcyjność inwestycyjna województw nie jest jednak czynnikiem najważniejszym, warunkującym wybór metody prywatyzacji w regionie, w znacznym stopniu zależy on bowiem od liczby przedsiębiorstw objętych przekształceniami w danym województwie, struktury i specyfiki przekształcanych podmiotów oraz wielu innych czynników o charakterze społecznym i ekonomicznym.

Introduction

The process of ownership transformations continuing in Poland for sixteen years has been the key to the process of transformation of our economy. During that time very significant changes occurred in both the ownership structure and in economic relations bringing our situation closer to that of the countries with advanced level of economic growth and developed market economy as well as modern living standards.

Privatization, which next to opening the economy, demonopolization and introduction of the principle of hard budget limitation, was the necessary condition of creating market competition and initiating efficiency focused changes in the economy (*Restrukturyzacja przedsiębiorstw...* 2001) plays the basic role in the program of ownership transformations in Poland. Privatization confirms that private enterprises, particularly those with involvement of foreign capital are definitely ahead of the state-owned enterprises as concerns the economic efficiency (KALIŃSKI 2004, p. 377).

The internal structure of ownership transformation processes in Poland, considering the applied privatization methods is relatively balanced. Both nationally and in the system of individual provinces, there is no definite predominance of any of the applied privatization methods although analysis of relative application frequency of individual methods in individual provinces a significant differentiation between individual provinces resulting mainly from the number of state-owned enterprises within a given province, their size, financial standing, industry they operate in and investment attractiveness of a given region can be observed (KAWIECKA 2005, p. 104).

The paper focuses in particular on one of the abovementioned factors, i.e. the investment attractiveness of the province for investors participating in the privatization process.

The goal of the paper was to investigate the relation between investment attractiveness of provinces and differences in application of individual privatization methods in provinces.

Results of studies by the Gdańsk Institute for Market Economics "Investment attractiveness of provinces and sub-regions of Poland 2005" edited by Tomasz Kalinowski (authors team Anna HILDEBRANDT et al.), Gdańsk 2005, and results of own studies concerning regional differences in application frequency of individual privatization methods were used to achieve the goal of the study formulated in that way.

The analysis of results uses the methods of statistical data analysis and graphic methods. The application frequency for individual privatization methods in provinces is presented as relative values (as compared to the number of state-owned enterprises covered by transformations in a given province) and absolute values (relative to the total number of state-owned enterprises in Poland covered by a given privatization method), which allowed formulating conclusions concerning regional differences in that frequency. Logical analysis based on the analysis of own results and classification of provinces according to their investment attractiveness was in turn used to define the relation between the investment attractiveness of provinces and regional diversity of the internal structure of the ownership transformation process. Theoretical issues related to the studied subject matter are presented by means of the descriptive method.

The timeframe of the study encompasses years 1990-2005; the spatial framework of the discussed process covers the entire area of Poland with the division into 16 provinces according to the current administrative division of the country.

Differences in ownership transformation process structure between regions according to the privatization method

From commencement of ownership transformation process until the end of 2005 the process covered 5715 state-owned enterprises, i.e. 67,6% of the total number of state-owned enterprises existing at the beginning of the period, of which (*Dynamika przekształceń...* 2005, p. 10):

- 1578 were commercialized,
- 2253 were subject to direct privatization according to the procedure provided in art. 37 of the Act on privatization of state-owned enterprises and art. 39 of the Act on commercialization and privatization,
- 1884 were liquidated according to the procedure provided in art. 19 of the Act on state-owned enterprises.

Adding to that 1654 (*Mały Rocznik Statystyczny Polski* 2004) liquidated state-owned farms included into the Resources of the State Treasury Agricultural Resource that are excluded from the subject of further analysis, in total 7369 state-owned enterprises, i.e. 87,2% of their total number existing at the beginning of the period covered by the analysis were subject to transformation.

The paper presents the analysis of application frequency in individual provinces of indirect and direct privatization excluding liquidation of state-owned enterprises for economic reasons. From the perspective of the goal of the paper it is justified as using liquidation as a method of privatization is not dependent on investment attractiveness of a given province but on the economic standing of the state-owned enterprises present in a given area.

Analyzing the application frequency of indirect privatization that covered ca. 22.7% of wholly owned companies of the State Treasury and which, despite its still unsatisfactory scale, plays a very important role in the process of Polish economy privatization, it can be seen clearly that it shows significant regional differences. That is confirmed by the distribution of wholly owned companies of the State Treasury covered by indirect privatization in individual provinces presented in table 1.

As indicated by analysis of the data presented in table 1, the largest numbers of wholly owned companies of the State Treasury transformed by means of indirect privatization were located in the provinces of: Mazowieckie – 13.4% of all such companies privatized through indirect privatization and Śląskie – 12.8%, while the lowest shares in the number of wholly owned companies of the State Treasury transformed by means of indirect privatization had companies from provinces: Warmińsko-Mazurskie – 2.2% and Podlaskie – 2.8%. Those differences are obviously linked to the specific nature of indirect privatization to which state-owned enterprises previously commercialized with medium or large employment, characterized by good financial standing are subject, which creates large potential for inflow of direct foreign investments and the diversified level of interest of investors in participation in the process of privatization in a given region. In relative terms indirect privatization was applied most often in the areas of provinces: Podlaskie – 31.3% of the total number of state-owned enterprises commercialization in the province, Wielkopolskie – 28.1% and Małopolskie – 27.7%. In relative terms that privatization method was applied least frequently in the provinces of: Śląskie – 16.7%, Podkarpackie – 17.2% and Łódzkie – 18.1%. The differences are significant as while in the province of Podlaskie over 31% of all commercialized state-owned enterprises in the region were transformed in that procedure, in the province of Śląskie that percentage was less than 17%, i.e. more than 14 percent points less.

Table 1
Wholly owned companies of the State Treasury privatized by means of the indirect method during the years 1990-2005 by province

Province	Commercialized state-owned enterprises (1)	Wholly owned companies of the State Treasury transformed through indirect privatization		
		Total (2)	% (Poland = 100%)	% (2/1)
Dolnośląskie	181	41	11.5	22.7
Kujawsko-Pomorskie	90	23	6.4	25.6
Lubelskie	60	11	3.1	18.3
Lubuskie	38	10	2.8	26.3
Łódzkie	116	21	5.9	18.1
Małopolskie	112	31	8.6	27.7
Mazowieckie	177	48	13.4	27.1
Opolskie	63	14	3.9	22.2
Podkarpackie	87	15	4.2	17.2
Podlaskie	32	10	2.8	31.3
Pomorskie	73	19	5.3	26.0
Śląskie	275	46	12.8	16.7
Świętokrzyskie	65	15	4.2	23.1
Warmińsko-Mazurskie	31	8	2.2	25.8
Wielkopolskie	121	34	9.5	28.1
Zachodniopomorskie	57	12	3.4	21.0
POLAND	1578	358	100	22.7

Source: own work based on the bulletin *Dynamika Przekształceń Własnościowych*, Ministry of State Treasury, Department of Analyses and Forecasts, Warszawa 2005, No. 61, pp. 32, 43.

Moving to the analysis of direct privatization attention should be brought to the fact that it characterizes by high effectiveness and plays an important role in the process of ownership transformation in Poland. Since the beginning of that process until the end of 2005 direct privatization was applied to 2253 state-owned enterprises, of which the privatization processes have been completed in 2157 enterprises representing 95.7% of the total number of approvals issued by the Ministry of Ownership Transformations/Ministry of State Treasury. The structure of enterprises covered during the studied period with direct privatization by province is presented in table 2.

Table 2

State-owned enterprises subjected to direct privatization During the years 1990-2005 by province

Province	State-owned enterprises subject to transformations (1)	Directly privatized state-owned enterprises		
		Total (2)	% (Poland = 100%)	% (2/1)
Dolnośląskie	533	216	9.6	40.5
Kujawsko-Pomorskie	337	140	6.2	41.5
Lubelskie	283	130	5.8	45.9
Lubuskie	180	75	3.3	41.7
Łódzkie	434	163	7.2	37.6
Małopolskie	381	158	7.0	41.5
Mazowieckie	686	288	12.8	42.0
Opolskie	190	71	3.2	37.4
Podkarpackie	279	114	5.1	40.9
Podlaskie	170	83	3.7	48.8
Pomorskie	295	131	5.8	44.0
Śląskie	739	201	8.9	27.2
Świętokrzyskie	179	55	2.4	30.7
Warmińsko-Mazurskie	262	106	4.7	40.5
Wielkopolskie	484	195	8.7	40.3
Zachodniopomorskie	283	127	5.6	44.9
POLAND	5715	2253	100	39.4

Source: own work based on the bulletin *Dynamika Przekształceń Własnościowych*, Ministry of State Treasury, Department of Analyses and Forecasts, Warszawa 2005, No. 61, pp. 84, 105.

As indicated by the data in table 2, the largest number of state-owned enterprises covered by direct privatization was situated in the provinces of: Mazowieckie – 18.6% of the total number of enterprises, Dolnośląskie – 9.6% and Śląskie – 8.9%. The lowest share in the total number of enterprises privatized by that method had the provinces of: Świętokrzyskie – 2.4%, Opolskie – 3.2% and Lubuskie – 3.3%. In relative terms direct privatization was applied most often in the area of provinces of: Podlaskie – 48.8% of the cases of state-owned enterprises transformations in the province and Lubelskie – 45.9% that is in the regions of eastern Poland. That type of privatization was least often applied in the provinces of: Śląskie – 27.2% and Świętokrzyskie – 30.7%.

Investment attractiveness of provinces and structure of ownership transformation processes

Investment attractiveness of provinces that could be understood in the categories of the tendency of investors to choose the region as the place for location of the investment (GAWLIKOWSKA-HUECKEL, UMIŃSKI 2000, p. 7), is a very important factor conditioning progress in the ownership transformation process in individual regions. It is particularly important as concerns the foreign investors whose interest in Polish economy in the circumstances of shortage of domestic capital plays an important role in the process of privatization of state-owned enterprises.

The spatial allocation of foreign capital in Poland is significantly diversified. Investments concentrate mainly within the capital city, in strong industrial centers (Śląsk, Wielkopolska, Tricity), along the major transport routes and along the western border of the country (HELLER, WARŻAŁA 2005, p. 788).

Studies on investment attractiveness of provinces of Poland carried out by the Gdańsk Institute for Market Economics considering seven groups of factors most important for investors that included: transport accessibility, labor resources and costs, sales market, economic and social infrastructure, level of general safety and activity of provinces in relations with investors, categorize provinces into five groups of attractiveness, which is presented in table 3.

The first group of very high (class A) investment attractiveness consists of three provinces: Śląskie, Mazowieckie and Małopolskie. The province of Śląskie has a very good situation in all aspects of investment attractiveness except the level of general safety and activity of the province in relations with investors. The only weaknesses of Mazowieckie province are the labor costs and level of safety. The high position of Małopolskie province is the result of good or very good situation in all analyzed aspects of attractiveness with the exception of general safety level.

The lowest level (class E) of investment attractiveness was recorded in case of provinces of: Świętokrzyskie, Lubelskie and Podlaskie. In all those three regions the serious problems include low activity in relations with investors, poor transport accessibility and low level of economic infrastructure development. The problems for provinces of Lubelskie and Podlaskie also include low resources of labor and poorly developed social infrastructure while for province of Świętokrzyskie a very low capacity of the sales market

It should also be mentioned that according to the authors of the report the specificity and diversity of business activity causes that depending on its type, industry and even mode of operation of individual enterprises different

Table 3
Assessment of investment attractiveness of provinces

Province	Transport accessibility	Labor resources and costs	Sales market	Economic infrastructure	Social infrastructure	General safety level	Activity of the province in relations with investors	Investment attractiveness of the province*
Śląskie	A	A	A	A	A	E	C	A
Mazowieckie	B	D	A	B	B	E	A	A
Małopolskie	A	A	B	A	A	D	B	A
Dolnośląskie	B	B	B	A	A	D	A	B
Wielkopolskie	A	B	B	C	C	C	A	B
Łódzkie	C	A	C	D	C	C	C	B
Pomorskie	D	C	A	B	B	E	C	C
Zachodniopomorskie	C	C	C	D	B	D	B	C
Opolskie	B	D	C	B	D	B	C	C
Lubuskie	C	D	D	C	E	C	B	C
Podkarpackie	E	C	D	C	D	A	D	D
Kujawsko-Pomorskie	C	B	E	D	C	C	E	D
Warmińsko-Mazurskie	D	E	E	C	D	B	D	D
Świętokrzyskie	D	C	E	E	C	B	E	E
Lubelskie	E	E	C	E	E	A	E	E
Podlaskie	E	E	D	E	E	A	D	E

* The synthetic investment attractiveness of the province indicator built on the basis of analysis of a set of partial indicators including, according to the research assumptions made, the highest weight was allocated to the labor resources and costs. Activity of the province in the relations with investors was considered slightly less important but also bearing for development of investment attractiveness of a province. The further assessed factors were ranked as follows – transport accessibility, size of sales market and level of economic infrastructure development. The relatively lowest significance was allocated to two components of investment attractiveness – the level of social infrastructure development and the general safety level.

Source: *Atrakcyjność inwestycyjna województw i podregionów Polski 2005*. Editor. T. Kalinowski (author;s team. Anna Hildebrandt et al.), Gdańsk Institute for Market Economics, Gdańsk 2005, p. 77.

location factors are preferred. As a consequence, we cannot talk about absolute investment attractiveness of areas. It depends on the demand for specific aspects of location and that demand depends on the investment size and structure (*Atrakcyjność inwestycyjna...* 2005, p. 10).

Referring in this point to the earlier discussed diversified frequency of application of the presented privatization methods in individual provinces it can be noticed that provinces in which the largest numbers of wholly owned companies of the State Treasury were subject to indirect privatization (Mazowieckie, Śląskie, Dolnośląskie), are provinces belonging to the groups of regions with high or very high investment attractiveness. On the other hand, provinces where that method was applied least frequently (Warmińsko-Mazurskie, Podlaskie, Lubelskie, Lubuskie) are provinces that were classified to groups of low or the lowest investment attractiveness. The exception in that group is the province of Lubuskie, which in investment attractiveness was classified as medium attractive while it belongs to the group of provinces where indirect privatization was applied quite rarely which was probably a consequence of the fact that the province belongs to the group of the less industrialized provinces while indirect privatization was applied to large enterprises with good financial standing.

It is also worth noticing that the earlier mentioned provinces with low or very low investment attractiveness are the regions situated in the eastern part of Poland. Analysis of foreign investments indicates on the other hand that investors have very precisely defined expectations and generally prefer large urban areas or western and southwestern provinces. Backwardness of eastern provinces makes them unattractive as partners for the majority of external investors while peripheral location away from modern transport routes and dynamic economic centers amplify that status even further (KOZAK 2003, p. 9).

That clear dependence between the application frequency of indirect privatization and province investment attractiveness cannot be seen in case of analysis considering the relative frequency of its application. That method was applied relatively most frequently in both provinces of high attractiveness such as Wielkopolskie and those of very low attractiveness as Podlaskie and the opposite, among the provinces where indirect privatization was applied relatively the least frequently we have the province of Śląskie. That of course is justified and related to the overall number of enterprises that were subject to transformations in a given province. Based on the example of Śląskie province it can be seen that although that region is the most attractive for foreign investors, characterized by a large number of locations by international corporations, the fact that at the same time it is the largest urbanized area in Poland where saturation with state-owned enterprises at the beginning of the period of ownership transformations was very high and where more than 37%

of all privatized state-owned enterprises were subject to commercialization causes that in relative terms that province is not among the national leaders.

Analyzing the direct privatization application frequency in individual provinces against the background of their investment attractiveness it should be concluded that in absolute terms the largest numbers of state-owned enterprises were subject to direct privatization in the provinces of Mazowieckie – 18.% and Dolnośląskie – 9.6%, that is provinces that are characterized by high or very high investment attractiveness. On the other hand, that method was used the least frequently in the provinces of Świętokrzyskie – 2.4% and Opolskie – 3.2%, which in investment attractiveness are in the lowest and medium groups of attractiveness respectively. Analyzing in turn the relative frequency of direct privatization application in individual regions it can be noticed that although direct privatization occurred relatively the most often in the provinces of the lowest attractiveness (Podlaskie, Lubelskie) in the provinces where it was applied relatively the least frequently there was no clear link to attractiveness. They were both provinces of very high attractiveness (Śląskie) and very low attractiveness (Świętokrzyskie). That is probably the consequence of the fact that direct privatization is applied to small or medium enterprises, frequently with poor financial standing, requiring restructuring and capitalization and consequently that method was used most frequently in the regions of eastern Poland.

Conclusions

Analysis of application frequency of indirect and direct privatization in individual provinces against the background of their investment attractiveness allowed formulating the following conclusions:

1. The frequency of direct and indirect privatization application in provinces in absolute terms is conditioned to a significant extent by their investment attractiveness. As of commencement of ownership transformation processes until the end of 2005 the largest numbers of indirect privatization in absolute terms were recorded in the provinces of Mazowieckie and Śląskie, that is provinces belonging to the group of regions of very high investment attractiveness. The lowest numbers of such cases were recorded in the provinces of Warmińsko-Mazurskie and Podlaskie that in investment attractiveness were classified in the groups of low and lowest investment attractiveness. On the other hand, direct privatization in absolute terms was applied most frequently in the provinces of Mazowieckie and Dolnośląskie that is provinces of high or very high investment attractiveness. Provinces of Świętokrzyskie and Opolskie, which in investment attractiveness were positioned in

the lowest, and medium investment attractiveness groups had the lowest share of enterprises transformed according to that method.

2. There is no such clear dependence between analyzed values in case of relative frequency of application of individual privatization methods in the investigated regions. The studies showed that indirect privatization in relative terms was applied most frequently in the province with very low investment attractiveness – Podlaskie as well as in the province characterized by high attractiveness – Wielkopolskie. Direct privatization was in term applied relatively most frequently in the provinces of Podlaskie and Lubelskie that is the least attractive ones from the foreign investors point of view and the least frequently in the province of Śląskie characterized by the highest level of investment attractiveness and Świętokrzyskie that is among the least attractive provinces.

3. The studies confirmed that the frequency of indirect and direct privatization application in individual provinces was conditioned to a certain extent by their investment attractiveness but it also depends to a significant extent on the number of enterprises subjected to transformation in a given province, the structure and specific characteristics of the transformed entities and many other factors of social and economic nature. Both the progress status of the privatization process as well as its internal structure are the derivative of very many factors among which we could include investment attractiveness of provinces, however, as the analysis of the relative frequency of application of individual privatization methods in the studied regions and their investment attractiveness, it is not the most important factor.

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