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ECONOMIC EFFECTIVENESS OF ENTERPRISES PRIVATISED THROUGH 'EMPLOYEE LEASING' IN THE LUBELSKIE VOIVODSHIP

Abstract

Present results of research on the assessment of economic effectiveness of enterprises privatised through 'employee leasing' in the Lubelskie Voivodship is the main objective of this article. The essence of economic effectiveness and way of measuring economic effectiveness (effectiveness measure) are presented in the article. Also in the article shows the most important research, with particular regard to the level of economic effectiveness of enterprises privatised through 'employee leasing' in the Lubelskie Voivodship.

JEL Classification Code: O3, O31, O32.

Keywords: economic effectiveness, a measure of efficiency, privatization.

Introduction

Any organized activity is associated with continuous, repeating the process that involves conversion of resources purchased in order to obtain certain effects (selling services, products, goods).

The accomplishment of this repeatable process requires accumulating the source of finances best at a point of view of the entrepreneur (capital) which are being converted inside the enterprise through the purchase of supplies into determined results.

Already in 1916 one of precursors of management studies Henry Fayol in one's work under the title 'Industrial and general administration' distinguished activities financial, including 'seeking capital and trades in them' as one of important functions of the enterprise.

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The enterprise should finance its activity with proceeds obtained from the sale of its products, goods and services (the principle of self-financing). Hence, it is essential that the disbursement of funds and conversion of assets should bring the best benefits, which are measured as a relation between obtained results and incurred expenses (effectiveness ratios).

In layman's terms 'effectiveness' is a way of operation that brings the best (or expected) results. In case of companies, effectiveness is more formalized, especially if we use the concept of effectiveness in the economic context, where we have methods and tools necessary to assess economic effectiveness of an enterprise and describe it by means of ratios and indices. Effectiveness is therefore a relation of outcomes to costs, and the ratios answer the question what profit is generated from the outlays made. This relation usually takes a form of a simple formula with a numeric result which describes the effectiveness rate.

Undoubtedly, in addition to a social purpose, privatisation of state-owned companies was meant to increase effectiveness and efficiency of the transformed enterprises, thereby leading to a better use of their resources.

Due effectiveness of an enterprise is the most important factor determining the success of the enterprise on the market, and consequently contributes to the success of the economy of the whole country. Although individual countries set different goals and challenges for their companies, effectiveness of economic activity is undoubtedly a crucial objective, because in the long run it determines the efficiency of the country's economy.

To sum up, one of the key conditions for development of business enterprises is providing them with adequate capital resources and ensuring effective use of the owned assets in the processes realized by the company. Every enterprise should endeavour to:

- increase effectiveness of its operation (effectiveness),
- maintain financial liquidity (solvency).

Management of an enterprise should be conducted in a reasonable and rational way. In other words, it should maximise effectiveness while maintaining a safe level of risk and in turn lead to achieving the fundamental goal of the enterprise – the rise of its market value. Company's effectiveness, particularly in the current economic situation, is the essential mechanism ensuring success of any business activity.

The main objective of the thesis is the assessment of economic effectiveness of enterprises privatised through 'employee leasing' in the Lubelskie Voivodship in the years 1992 – 2009. In cognitive terms, this research will also result in a formulation of a financial model of a privatised enterprise that includes economic effectiveness.

Effectiveness of enterprises - the essence and principles of measurement

The category of the effectiveness is a basic evaluation criterion of every sphere of the human activity. An effectiveness is a result of taken action, described with relation of get effects up to the incurred expenditure. An effectiveness is a quantitative feature of action which is appointed as the relation of functional effects get in the certain time and aiming at satisfying the needs for the recipient and the expenditure (of stores) necessary to achieve this effect carried in the certain time. The measurement of the effectiveness can concern specific proceedings, processes, subjects, persons. The effectiveness in conditions of the changeability of surroundings is a guarantor of lasting and the development of enterprise.

The effectiveness is often defined by different expressions as which we recognize the profitability among others, productivity, productivity, effectiveness, cost-effectiveness, efficiency of action, profit. With reference to the above one should notice that the effectiveness is an ambivalent and differently interpreted notion, because can refer both to persons, subjects, given action, organization, economy, you, investment, motivation. In the event of enterprises practitioners as well as theoreticians of the management think, that the effectiveness is a key to the increase in the competitiveness through the ability to the implementation of strategies and purposes of the company and the tool of the measurement of the effectiveness of the management.

In economics the effectiveness is being get out of the social welfare as 'the most effective application of stores of the society in the process of meeting gaps and the needs of people'. According to P.F. Drucker a effectiveness is a key element of the development of the human and the organization which is used for a self-realization and abilities of the modern society to survive, it is also a degree of mastering the purpose.

The economic effectiveness determines the result of taken action of the business entity (operating and strategic), and is being expressed as the outcome of the report of get effects up to the incurred expenditure. An economic effectiveness is a resultant of three fragmentary effectivenesses - of the production effectiveness, the allocative effectiveness and the distribution effectiveness which refer to individual spheres of the activity of the company. Economic dimension of the effectiveness, according to the approach from Martyniak Z. contains criteria presenting reports between effects and the expenditure, embracing:

- cost-effectiveness - quotient effects to expenditure, for example productivity, profitability,
- beneficial-ness - difference between the effect and the circulation, for example a profit.

In case of enterprises comprehending the economic effectiveness more was formalised, particularly in the area of the manner of the calculation of the effectiveness. The effectiveness is being expressed in measurable individuals what the possibility of determining the level is giving to the given effectiveness of organization. The

methodology of the calculation of the effectiveness of enterprises assumed the name of *account of the economic effectiveness*. A business activity is a sequence repeating itself of the activity consisting in incurring the determined expenditure, their proper conversion in the destination of receiving results (of economic goods or provided services). This sequence is being carried out both in the enterprise as the whole and in allocated functional areas (departments, departments) and individual undertakings (for example investment).

One should pay attention to the fact that the effectiveness analysis of the activity of the company is one of two areas (apart from the property and capital situation analysis enterprises) of financial analysis of an economic entities.

The measurement of the effectiveness consists in comparing achieved results with the expenditure, whereas way for her of carrying (methodology) figure 1 is showing.

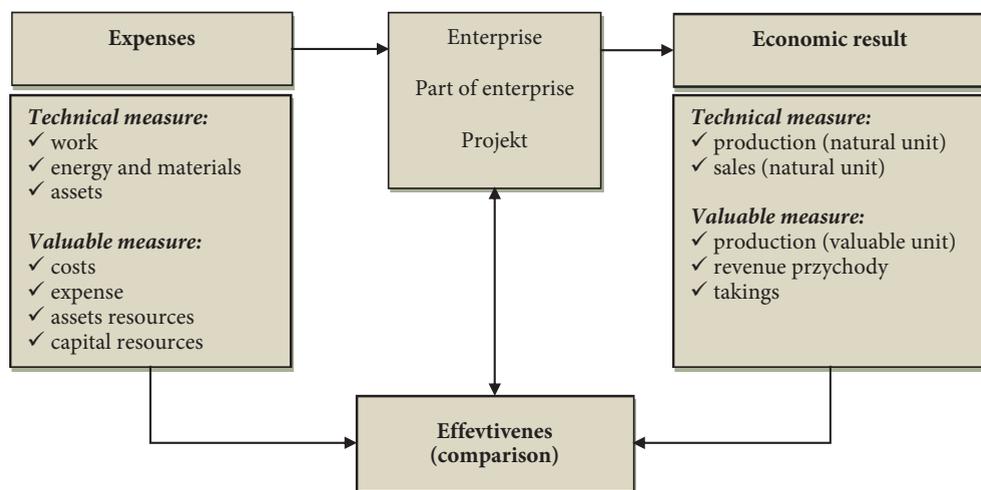


Figure. 1. Measurement of the effectiveness rules

Source: Own study

The cost-effectiveness calculation of the enterprise can be introduced in natural individuals (or conversion) and in reputable individuals. The measurement of the effectiveness in reputable individuals can be made with the help of ruthless and relative formulae of the effectiveness. Typologies of varieties come across in practice of cost-effectiveness calculations depending on accepted measures of the expenditure and results are being presented as follows:

1. Account in natural individuals (or conversion) – productivity
 - a) work output,
 - b) material consumption rate,

- c) energy consumption,
- d) productivity of the assets.
2. Mixed account up in natural individuals (or conversion) and valuable – cost-consuming-ness
 - a) cost-consuming-ness of the production,
 - b) cost-consuming-ness of the sale.
3. Mixed account in natural individuals (or conversion) and valuable – profitability
 - a) return of work (on one the employed),
 - b) return of the production (per unit of production).
4. Account in reputable individuals – profitability
 - a) absolute formats – categories of financial results,
 - b) relative formulae – return of sales, return on capital.
5. Account in reputable individuals – efficiency of action
 - a) rotational-ness of assets,
 - b) assets turnover.
6. Account in reputable individuals – financial effectiveness
 - a) absolute formats – cash flows, economic value added EVA,
 - b) relative formulae – performance indicators financial.

Described changes of cost-effectiveness calculations depict all categories come across in analysis of the enterprise of the effectiveness, that is: the productivity, cost-consuming-ness, profitability, efficiency of action, financial productivity.

The most as a whole and synthetically accounts depict the effectiveness in valuable individuals.

Research conclusions

Selection of a group included in the research is of fundamental importance as it determines the scope of the subject matter of the conducted research.

All the companies included in the research meet the following criteria:

- State-owned companies privatised through the direct privatisation – a fee-based handover of an enterprise for use
- Companies located in the Lubelskie Voivodship.

The target population determined using the aforesaid criteria was chosen on the basis of the following data:

- A list of leasing contracts for a fee-based handover of state-owned companies for use as of 31/12/2009, prepared especially for the needs of this study by the Delegation of the Ministry of State Treasury in Lublin.
- Information available from publications of the Central Statistical Office, Voivodship Statistical Office and the Ministry of State Treasury.

On the basis of an analysis of the aforementioned documents and entries in the documentation of the Commercial Court the research sample consisting of 53 enterprises was established.

The main sources of statistical information included financial statements with a balance sheet and a profit and loss account, which were supplemented with a questionnaire designed especially for the needs of this study. In addition to financial statements and questionnaires, relevant statistical data were obtained from:

- Publications of the Central Statistical Office and of the Ministry of State Treasury regarding ownership transformations in Poland,
- Statistical Yearbooks of the Central Statistical Office,
- Statistical Yearbooks of the Voivodship Statistical Office,
- Publications on the subject of ownership transformation (Economics and Organisation of Enterprises, Marketing),
- Conference materials.

The aforementioned additional statistical information provided a comparative background for the results obtained from the questionnaires and analyses of financial statements.

The analysis of economic effectiveness described in this doctoral thesis resulted in the formulation of the following conclusions regarding the researched target population:

- A continuous decline in economic effectiveness is a characteristic feature of the companies analysed in the study, which is confirmed by profitability ratios. All types of profitability ratios (return on equity, return on sales) showed a decreasing tendency. The worst profitability ratios had transport companies, medium-size enterprises with external or employee ownership, whereas the highest ratios had managerial enterprises.
- A common feature of the target population is a relatively stable efficiency of operation, measured by means of turnover ratios. Turnover ratios, which should achieve the highest possible values, remained virtually unchanged for almost all categories of assets and separated groups of enterprises. The highest turnover ratios were observed in case of employee-owned enterprises. An average operating cycle of the companies analysed in the paper lasted 80 days (employee-owned companies and managerial enterprises had the shortest cycle). Undoubtedly, this situation led to a more widespread use of trade credit by the analysed companies rather than extending credit to their customers. Simultaneously, an increase in the asset productivity indicates a better utilisation of the owned assets and resources.
- Another characteristic of the analysed companies is a radical decrease in the earned financial surplus (particularly during the last 3 years) in constant prices. In current prices, a stabilization of the achieved financial results can be observed. The transport companies were in the worst situation as they showed a net loss throughout the whole analysed period of time. When the size of the companies

was the criterion for comparison, the worst financial results were achieved by small enterprises. The highest average net profit values were obtained by industrial enterprises, big and large companies and enterprises with external ownership (up to 2005). In the years 2006 – 2009 managerial enterprises had the highest average net profits.

- The analysed group of enterprises can be regarded as businesses with a low probability of bankruptcy (according to the analysis based on Altman's formula). At the same time, Altman's formula showed deterioration of financial standing of the analysed enterprises - a downward tendency of the Z-score. According to Altman's criteria, only transport companies were likely to face bankruptcy. This was confirmed by results obtained using the discriminatory model, which showed that the analysed companies fell into the category of relatively well-performing enterprises with a simultaneous decline of the assessment criterion – the W ratio. A multi-criteria analysis indicated a deterioration of the financial situation of the large and employee-owned enterprises. Similar conclusions were drawn from the multi-criteria analysis of a 'quick test' based on Mączyńska's model.

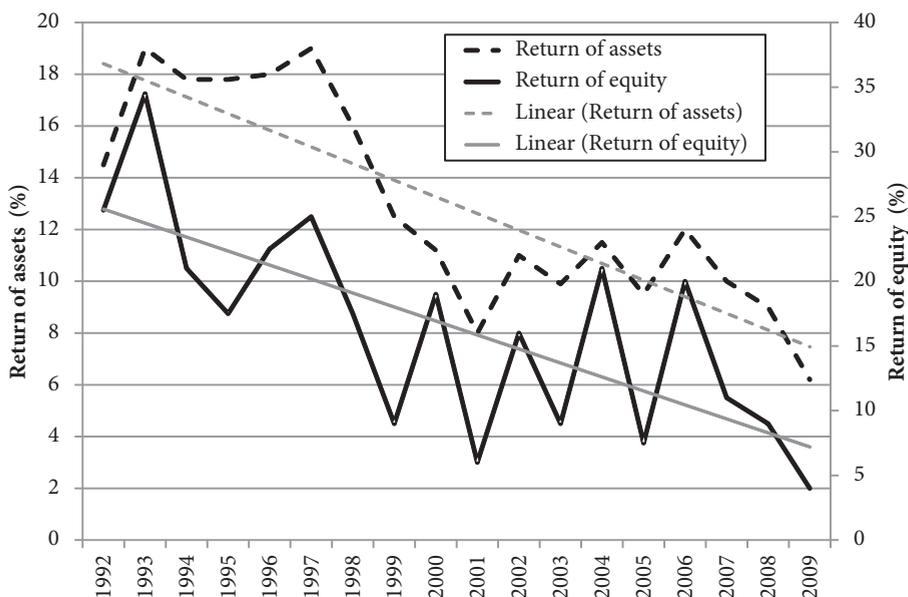


Figure. 2. Return of assets and return of equity of examined enterprises

Source: Own study

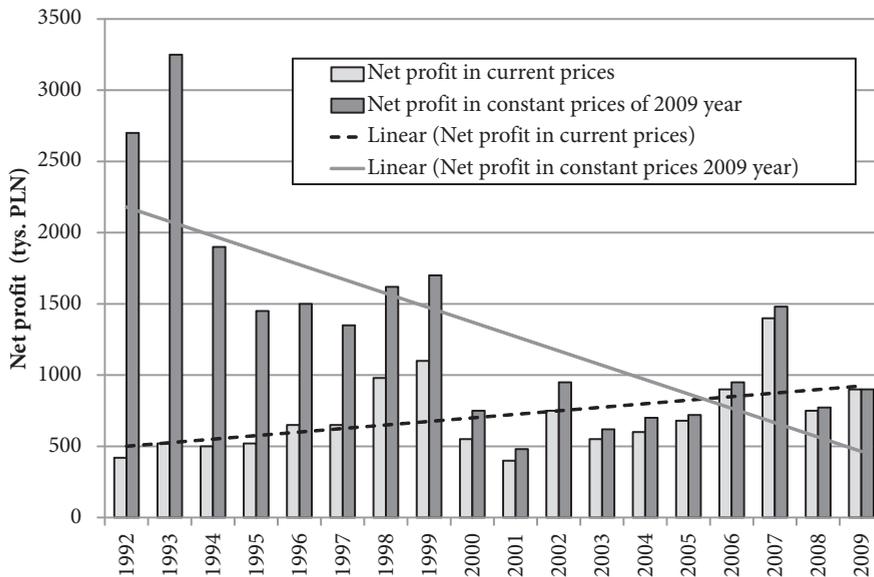


Figure 3. Net profit on one enterprise of examined enterprises in current and constant prices

Source: Own study

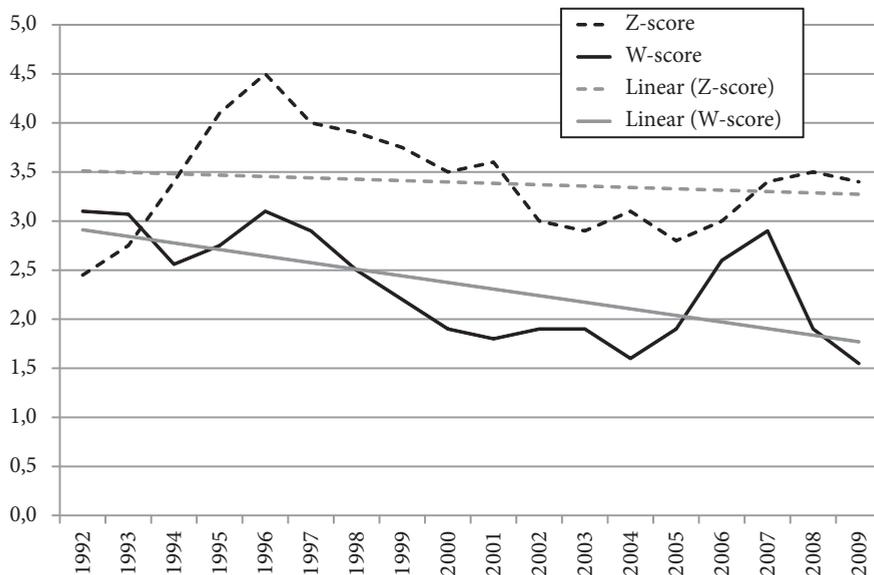


Figure 4. Z - score and W - score value of examined enterprises

Source: Own study

To sum up, the research thesis formulated in the beginning of this doctoral paper regarding the relations between the achieved economic effectiveness of enterprises privatised through 'employee leasing' in the Lubelskie Voivodship and the form of ownership and the degree of concentration of capital has been explicitly and unequivocally confirmed. Changes in effectiveness applied to different separated groups of enterprises to a varying degree. Ownership transformations were not dynamic and did not result in the increase in the effectiveness of the analysed enterprises, but solely maintained their financial liquidity. In the long term and in view of Poland's membership in the EU, this model of operation can lead to bankruptcy of some of the analysed enterprises. Only managerial enterprises that have a high degree of concentration of capital show improvement of the economic effectiveness.

The conducted research has confirmed the statement concerning increasing the level of utilisation of the owned resources by privatised enterprises. Privatised companies use their resources and assets in a more effective way, which is indicated by a rise in their turnover ratios (efficiency), particularly noticeable in case of managerial and employee-owned enterprises, and by an increase in revenue per employee and return on assets ratios.

Changes introduced in the privatised enterprises did not increase their economic effectiveness, one of the reasons being ineffective use of corporate debt – virtually no separated group of enterprises (except for managerial enterprises) managed to achieve a positive degree of financial leverage. The worst results had the employee-owned enterprises. In general, return on equity of the analysed enterprises, used as the main indicator of economic effectiveness, underwent a significant decline.

The conducted research has agreed with the so-called theory of property rights claiming that the form of ownership is a deciding factor in the functioning of an enterprises.

Property rights should be understood not only as juridical ownership rights, but in compliance with a 'classical' definition by H. Demsetz as shaped by law, custom and morality, the right of an individual to appropriate and use resources. The analysis of the selected enterprises indicated significant differences in their financial results and in the use of external capital. The general financial situation and financial results were the best in case of enterprises whose ownership was in the hands of a small group of people constituting the company's management. In these enterprises emerged an entrepreneur (an individual or a group of people) who took responsibility for current management of the company as well as the risk involved in independent decision-making. This risk is connected with the possibility of losing not only the job but also the considerable financial means invested in the enterprise. These companies are characterised by a high proportion of short-term liabilities (including loans) in financing of their activity, which, as the only analysed group, they could use in an effective way to increase their return on equity. They achieved the highest ratios in multi-criteria enterprise evaluation and were included in the category of

well-performing enterprises. The enterprises with employee ownership had the worst overall financial situation and the lowest results.

In view of the conclusions, it can be stated that in case of the analysed enterprises the best effects were achieved through privatisation in which emerged an internal group with a majority ownership share.

Conclusions

Conducted examinations showed, that economic effectiveness of privatized enterprises with road of the employee leasing depends on the form of the property and the degree of the concentration of capital. Simultaneously property transformations contributed to substantial changes in the way of managing privatized enterprises, of which increasing the rate of utilisation of had stores is resulting.

In case of the form of the property concentration of capital owner's in privatized enterprises with road of the employee leasing contributed to the increase in the economic effectiveness of these subjects.

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