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**“Changes in Corporate Governance Structures in  
Polish Privatised Companies”**

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**CHANGES IN CORPORATE GOVERNANCE STRUCTURES  
IN POLISH PRIVATISED COMPANIES :  
EARLY RESULTS FROM THE SURVEY<sup>1</sup>**

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## 1. Introduction

This paper intends to present some early results of the survey of privatised companies from a list of the 500 biggest Polish industrial companies (in the terms of sales). The survey included interviews with top managers on corporate governance, restructuring and performance issues. The questionnaire was prepared by the project coordinator and several of the research partners, the interviews were conducted by a specialized firm (Research Department of the Polish Sociological Society).

The companies surveyed are former state-owned enterprises (SOEs), in which during the course of privatisation the State sold the controlling blocks of shares and in practice its share varies now from 0 to 43 per cent. The companies function mainly in the manufacturing sector (84 per cent). In 2000, two thirds of them were profitable (in terms of net profit); they employed from 85 to 4518 persons.

The task of this paper is to make a preliminary attempt to present changes in corporate governance structures in these companies (ownership, management and control structures) and to find correlations between these changes and certain indicators of companies' performance. Several hypotheses were formulated basing on the author's experience and findings of other researchers:

- privatisation exerts a strong influence on corporate governance structures and behaviour of former SOEs, while its influence on companies' performance is ambivalent and depends on a set of factors, among others on the character of changes in corporate governance;

- corporate governance is correlated with enterprises' performance, but vectors of such correlations could be different: in some circumstances, changes in corporate governance (or some of its elements) could initiate changes in performance and vice versa;

- there are strong correlations between changes in various elements of corporate governance within a company; one of the main factors being relations between insiders and outsiders, domestic and foreign investors.

- changes in corporate governance are handicapped by former structures of authority and influence structures which have survived from the state-owned past of the company (and the economy as a whole).

It should be stressed that analysis presented in this paper has a preliminary character and conclusions are not final and could be changed in the course of further research.

The paper has the following structure: the second section is devoted to changes in ownership structure of the companies, the third section deals with supervisory and management structures, the fourth section is devoted to analysis of correlation between corporate governance and performance in the surveyed companies, and the fifth section contains the main conclusions.

It is worth mentioning, that the field stage of the research — interviews in the companies — has proved to be more difficult than was expected, which differed from our previous experience. It was very hard to persuade managers to agree to make an interview, mainly due to three reasons:

- managers in Poland are overloaded with questionnaires, interviews and the like; these are the negative consequences of the high popularity of empirical research among Polish economists and sociologists;

- in many companies, public relation policy schemes are being adopted; more and more often it becomes very hard to obtain information or to reach people, if it does not comply with the policy adopted by the company;

– a growing number of companies have become a part of a certain holding or financial group, therefore their managers do not feel independent and free to give information about their companies without a permission of a superior authority.

Thus, at the beginning of transformation process in Poland, in 1989-1999, such a survey (a big questionnaire which is time-consuming for managers and companies' administration, because a large set of data for several years should be collected) could be successfully completed in two firms out of three. This ratio fell to one firm out of two by the mid-nineties, and in 2001 a realistic prognosis is one firm out of five, especially if one wants to survey the biggest companies. It is impossible now to imagine the situation from the early nineties, when a manager would ask to be included his company in a survey, because he wanted to contribute studies on transformation.

Nevertheless, after a couple of months we have succeeded in collecting data from 100 companies, although we had to take 16 of them outside the list of 500 largest companies (but quite close to this group). In the paper those 16 firms have been excluded from the analysis.

## **2. Ownership structure**

The ownership structure of the companies in question is highly outsider dominated (see Tables 1 and 2): on average, insiders possessed only 12.7 per cent of shares at the beginning of 1998 and 11.4 per cent two years later. In two thirds of the companies, managers do not possess shares at all, and other employees do not possess any shares in almost half of the companies under review. This is very important, because most methods of privatisation in Poland included some preferences for employees of privatised SOEs. In the largest enterprises, which were privatised through the so-called capital method, employees had the right to buy a certain amount of shares at discount prices, or, lately, even to receive them for free. Therefore, privatisation in Poland is often regarded as highly "insiderised". It seems to be true in the case of privatisation of small and medium scale enterprises (SMEs; especially in management-employee buy-outs) [Gardawski, 2000; Kozarzewski, 1999], but apparently does not apply to privatisation of largest companies. In fact, the role of insiders as a whole could be considered here as marginal. They very seldom gain control over the companies: managers and other employees have controlling blocks of shares (over 50 per cent of shares) only in 5 per cent of firms under review. Among insider groups, we also see traces of processes, which are occurring in smaller privatised firms: while managers are gradually strengthening their positions, other employees are losing their shares. These procedures seem to be much slower in the largest companies, than in SMEs, probably because there is not much worth fighting for: in most cases, the amounts of shares in question do not allow to exert any influence on the companies' functioning, so the shares could be attractive mostly as an investment of capital. Contrary to the situation in SMEs, in largest companies one can rarely find a type of shareholders which are former employees of the company. This is the second smallest type comparing to other shareholder types and it exists only in one fourth of the companies under review.

*Table 1*  
Ownership structure of the companies (per cent, unweighted average)

Shareholder type	1 January 1998	1 January 1999	1 January 2000
1. Top managers of the company	3.4	2.7	4.4
2. Other employees of the company	9.3	8.0	7.0
3. Former employees and managers	2.7	3.4	2.5
4. Other external private individuals	19.2	18.8	17.7
5. The State	8.8	8.3	7.9
6. Domestic industrial companies	9.2	8.8	10.5
7. Investment funds	11.7	11.7	8.1
8. Banks	2.9	2.4	3.0
9. Foreign investors / companies	19.8	22.3	26.1
10. Other	6.4	7.2	7.9

Percentages sum up in columns.

Source: own calculations.

*Table 2*  
Companies, where a given shareholder type does not possess shares; possess up to 50 per cent of shares; possess more than 50 per cent of shares (per cent)

Shareholder type	1 January 1998			1 January 1999			1 January 2000		
	0%	≤50%	>50%	0%	≤50%	>50%	0%	≤50%	>50%
1. Top managers of the company	65.8	32.9	1.3	71.4	27.3	1.3	66.7	30.9	2.5
2. Other employees of the company	47.4	48.7	3.9	49.4	48.1	2.6	48.1	49.4	2.5
3. Former employees and managers	75.0	25.0	–	72.7	26.0	1.3	72.8	27.2	–
4. Other external private individuals	64.5	19.7	15.8	63.6	22.1	14.3	61.7	24.7	13.6
5. The State	51.3	48.7	–	54.5	45.5	–	54.3	45.7	–
6. Domestic industrial companies	78.9	13.2	7.9	77.9	14.3	7.8	76.5	13.6	9.9
7. Investment funds	77.6	5.3	17.1	76.6	7.8	15.6	81.5	7.4	11.1
8. Banks	84.2	15.8	–	84.4	15.6	–	86.4	12.3	1.2
9. Foreign investors / companies	64.5	15.8	19.7	59.7	18.2	22.1	54.3	18.5	27.2
10. Other	88.2	5.3	6.6	85.7	7.8	6.5	86.4	6.2	7.4

Percentages sum up in rows.

Source: own calculations.

The biggest shareholders are foreign investors; at the same time they are the sole shareholder type, which gained significantly in 1998-2000. At the beginning of 2000 they already possessed controlling block of shares in more than one fourth of companies.

The second largest type are domestic private individuals; however, their share in companies' equity is falling slightly. Domestic industrial companies are in the third place and investment funds are on the fourth. The latter type of shareholders lost a significant portion of equity in 1999, losing one third of previously possessed controlling blocks of shares during the whole analysed period.

A quite large block of shares is still in the hands of the State (on average, about 8 per cent). It seems that the State is not in a hurry selling its shares: practically nothing has changed in the period from January 1998 till January 2000 and the State still possesses shares in almost every second largest industrial company. However, in some cases maybe the State simply is not able to sell shares. Every second enterprise where the State possesses more than 20 per cent of shares is unprofitable and at the same time has a strategic investor which often has a controlling block of shares. In such circumstances, this investor is not interested in buying more shares because he has enough control and does not want to increase his participation in losses of the company; for other investors, minor blocks of shares of a loss-bearing company also are not very attractive.

The very modest role of banks is also worth mentioning. In 2000, they possessed shares only in 13.6 per cent of the companies, being the smallest shareholder type. Only in one company in 2000, banks acquired controlling block of shares. However, in 8 per cent of cases banks could be regarded as strategic investors: they possessed from 20 to 60 per cent of shares.

*Table 3*

Ownership structure of the companies according to the year of the last contract on selling shares of the company (per cent, unweighted average)

Shareholder type	Privatised in 1989-1993			Privatised in 1994-1997			Privatised in 1998-2001		
	1 January 1998	1 January 1999	1 January 2000	1 January 1998	1 January 1999	1 January 2000	1 January 1998	1 January 1999	1 January 2000
1. Top managers of the company	3.3	2.4	6.3	4.8	3.5	3.5	1.2	1.1	3.8
2. Other employees of the company	11.0	10.4	9.8	8.5	8.6	7.1	10.1	7.2	5.9
3. Former employees and managers	1.7	4.3	1.5	5.3	5.5	4.9	3.6	3.2	2.8
4. Other external private individuals	18.8	16.8	16.0	7.2	7.2	10.8	18.7	19.1	13.4
5. The State	4.1	3.6	3.6	11.3	10.7	10.7	13.7	13.6	12.4
6. Domestic industrial companies	10.1	9.5	10.0	12.4	13.7	10.7	9.8	10.7	13.4
7. Investment funds	8.9	8.9	5.4	13.8	13.4	8.7	17.4	15.6	10.1
8. Banks	4.3	2.6	2.1	2.4	3.0	2.3	2.0	1.5	4.5
9. Foreign investors / companies	22.4	25.3	31.7	19.5	19.8	25.9	10.1	15.9	19.4
10. Other	5.3	7.1	7.1	8.5	9.8	10.5	4.3	4.2	8.7

Percentages sum up in columns.

Source: own calculations.

Table 3 shows that most of the above mentioned procedures in ownership structure depend on time which passed since privatisation. This means that such processes (e.g. strengthening of positions of foreign investors and managers, loosing their positions by non-managerial employees, investment funds and the State) have a universal character. Whereas dynamics of other shareholding is based on more complicated set of factors.

Despite the fact that there is no shareholder type that would dominate in the ownership structure in the whole sample of the companies, the level of ownership concentration is very high and is still growing (see Table 4). On average, one largest shareholder possesses a controlling block of shares, while five larger shareholders possess more than 80 per cent of shares.

*Table 4*

Blocks of shares possessed by one and five largest shareholders (per cent, unweighted average)

No. of shareholders	1 January 1998	1 January 1999	1 January 2000
1. One largest shareholder	54.2	55.7	59.1
2. Five largest shareholders	78.2	78.7	80.7

Source: own calculations.

The level of concentration of shares in the hands of the largest shareholder seems to depend on the date of privatisation. The longer the period of time passed since privatisation deals, higher is the concentration. In the case of five largest shareholders, the dependence is not so obvious; one can state that in those companies which were privatised earlier, the level of C5 (blocks of shares possessed by five largest shareholders) is lower than in the companies privatised later, although in all groups a slight increase in concentration can also be seen (see Table 5).

*Table 5*

Blocks of shares possessed by the first and the five largest shareholders according to the year of the last contract on selling shares of the company (per cent, unweighted average)

Year of last privatisation deal	One largest shareholder			Five largest shareholders		
	1 January 1998	1 January 1999	1 January 2000	1 January 1998	1 January 1999	1 January 2000
1989-1993	50.5	50.4	52.6	70.7	70.3	73.7
1994-1997	49.1	54.1	54.6	76.8	81.3	81.1
1998-2001	48.9	50.3	59.4	81.9	79.6	82.5

Source: own calculations.

While the five largest shareholders controlled the vast majority of the companies (more than 80 per cent), the one largest shareholder possessed controlling blocks of shares only in slightly more than every second company. The number of such companies was slowly growing during the whole period under review (see Table 6). At the same time it can be said that during that period, nearly 90 per cent of the companies had at least one strategic investor (shareholder that possessed 20 per cent of shares or more).

In more than 20 per cent of companies, ownership control belongs to a foreign investor which possesses more than 50 per cent of shares. At the same time, smaller foreign strategic investors became the biggest investors in a growing number of companies.

The second largest group of dominating shareholders (i.e. which possess more than 50 per cent of shares) are domestic industrial companies. Their number was slightly growing in years 1998-2000.

The third largest group in 1998 were investment funds, but their number decreased significantly, leaving them in fourth place in 2000, when the third place was occupied by "other organisations" which are in fact domestic companies from sectors other than financial and industrial.

*Table 6*

Companies, where largest shareholders possess less than 20 per cent of shares; 20 – 50 per cent of shares; more than 50 per cent of shares (per cent)

No. of shareholders	1 January 1998			1 January 1999			1 January 2000		
	<20%	20-50%	>50%	<20%	20-50%	>50%	<20%	20-50%	>50%
1. One largest shareholder	12.3	35.4	52.3	13.8	32.3	53.8	11.0	32.9	56.2
2. Five largest shareholders	7.8	10.9	81.3	9.4	10.9	79.7	6.9	9.7	83.3

Percentages sum in rows.

Source: own calculations.

The negligible role of banks is striking. Only in 2000, one bank has managed to occupy a dominating position in one company (see Table 7).

*Table 7*

Percentage of companies, where the following types of largest shareholder exist

Largest shareholder	1 January 1998			1 January 1999			1 January 2000		
	<20%	20-50%	>50%	<20%	20-50%	>50%	<20%	20-50%	>50%
1. Member of the Executive Board	1.5	3.1	3.1	1.5	3.1	3.1	1.4	4.1	4.1
2. Other employee of the company	1.5	3.1	–	1.5	4.6	–	1.4	2.7	–
3. Former employee of the company	–	1.5	–	–	–	–	–	–	–
4. Other external private individual	3.1	1.5	3.1	4.6	1.5	3.1	4.1	1.4	4.1
5. Domestic industrial company	1.5	4.6	9.2	1.5	3.1	10.8	–	4.1	11.0
6. Investment fund	–	9.2	9.2	–	9.2	9.2	–	8.2	5.5
7. Bank	–	4.6	–	–	–	–	–	1.4	1.4
8. Foreign investor	1.5	6.2	21.5	1.5	7.7	21.5	1.4	9.6	23.3
9. Other organization	3.1	1.5	6.2	1.5	3.1	6.2	1.4	1.4	6.8

Percentages sum for the subsequent years.

Source: own calculations.

Table 8 shows that 41.5 per cent of dominating investors in the companies in 2000 were foreign investors, while the share of domestic industrial companies was 19.5 per cent. These groups, together with “other organisations”, included almost 3/4 of all dominating shareholders in the companies under review.

Among the five largest shareholders, being strategic but not dominant (i.e. which possess from 20 to 50 per cent of shares), the State is in the first place (see Table 9). Having never been the largest shareholder, in 2000 the State became a strategic investor in 19.2 per cent of the companies. This figure is only 3 percentage points less than for 1998. That means that in about every fifth largest privatised company in Poland the State still has significant influence as an owner, at least formally.

Among other strategic, but not dominant shareholders there were no significant changes in 1998-2000 as well; all changes which could be seen in Table 9, have a rather fluctuating character. Attention should also be paid to the modest role of insiders as strategic investors.



*Table 8*

Type of the largest shareholder which possesses at least 20 per cent of shares (per cent)

Largest shareholder	1 January 1998		1 January 1999		1 January 2000	
	20-50%	>50%	20-50%	>50%	20-50%	>50%
1. Member of the Executive Board	8.7	5.9	9.5	5.7	12.5	7.3
2. Other employee of the company	8.7	–	14.3	–	8.3	–
3. Former employee of the company	4.3	–	–	–	–	–
4. Other external private individual	4.3	5.9	4.8	5.7	4.2	7.3
5. Domestic industrial company	13.0	17.6	9.5	20.0	12.5	19.5
6. Investment fund	26.1	17.6	28.6	17.1	25.0	9.8
7. Bank	13.0	–	–	–	4.2	2.4
8. Foreign investor	17.4	41.2	23.8	40.0	29.2	41.5
9. Other organization	4.3	11.8	9.5	11.4	4.2	12.2

Percentages sum in columns.

Source: own calculations.

*Table 9*

Percentage of companies, where the following types of five largest shareholders, are possessing at least 20 per cent of shares, exist

Five largest shareholders	1 January 1998		1 January 1999		1 January 2000	
	20-50%	>50%	20-50%	>50%	20-50%	>50%
1. Member of the Executive Board	4.6	3.1	3.1	3.1	4.1	4.1
2. Other employee of the company	4.6	–	7.7	–	5.5	–
3. Former employee of the company	3.1	–	3.1	–	1.4	–
4. Other external private individual	7.7	3.1	7.7	3.1	8.2	4.1
5. The State	23.1	–	20.0	–	19.2	–
6. Domestic industrial company	9.2	9.2	7.7	10.8	8.2	11.0
7. Investment fund	10.8	9.2	12.3	9.2	11.0	5.5
8. Bank	7.7	–	1.5	–	4.1	1.4
9. Foreign investor	10.8	21.5	13.8	21.5	13.7	23.3
10. Other organization	6.2	6.2	9.2	6.2	6.8	6.8

Source: own calculations.

The ownership structure of the companies under review does not suit the four-field matrix (see Figure 1) which takes into account whether this structure is concentrated or dispersed and whether it belongs mostly to insiders or outsiders. This matrix was good for Polish privatised SMEs [Kozarzewski, Woodward, 2001] and even for the whole privatised sector of industry in some post-Soviet countries, after adding the State as the fifth field [Lukashova et al., 2001; Kozarzewski, 2001]. In the case of biggest Polish privatised companies, insider and dispersed ownership are not of great significance. On the other hand, ownership concentration is high, especially considering the role of foreign investors<sup>1</sup>. Thus one can distinguish the following patterns of ownership structure in the analysed companies:

- ownership concentrated in the hands of foreign investors;
- ownership concentrated in the hands of domestic institutional shareholders;
- ownership concentrated in the hands of domestic private individuals not working in the companies;
- insider ownership.

<sup>1</sup> See also [Tamowicz, Dzierżonowski, 2001].

*Figure 1*  
Four-field matrix of ownership concentration and “outsiderisation”

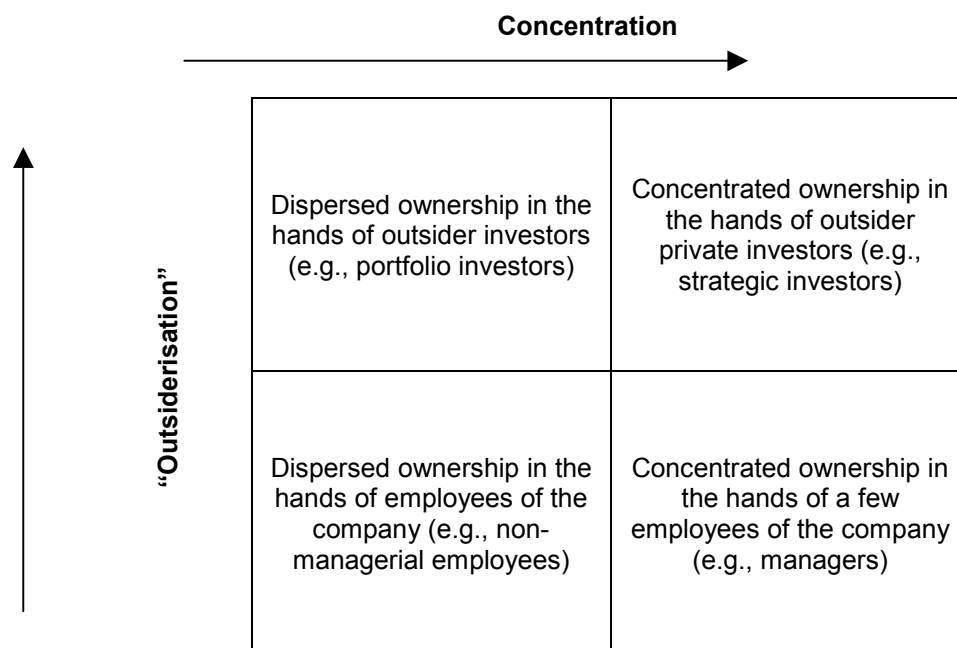


Table 10 shows that the biggest shareholder category in the companies (i.e., the group that has more shares than other three categories) are often domestic institutional shareholders. They are gradually losing their positions, while foreign investors become the biggest shareholder group in more and more companies. The other two categories, domestic outsider individuals and insiders, keep their positions throughout the years under review.

*Table 10*  
The biggest shareholder category in the companies (per cent of companies)

The largest shareholder category	1 January 1998	1 January 1999	1 January 2000
1. Foreign investors	23.7	27.3	29.6
2. Domestic institutional shareholders	44.8	41.5	39.5
3. Domestic outsider individuals	19.7	18.2	19.8
4. Insiders	11.8	13.0	11.1

Percentages sum in columns.  
Source: own calculations.

Obviously, companies with different largest shareholder categories have different levels of ownership concentration. The most concentrated ownership is in companies with a dominating foreign investor. The second place belongs to the companies dominated by domestic institutional shareholders. The latter group shows a significant increase in shares which belong to the largest shareholder (C1). In the two other groups the largest shareholder on average does not possess a controlling block of shares, although domestic private individuals are quite close to it. The least concentrated ownership is in insider-dominated companies, where one largest shareholder possesses on average two times less shares, than foreign investors, although the concentration level in this group is increasing (see Table 11).

*Table 11*

Blocks of shares possessed by one (C1) and five (C5) largest shareholders in the companies according to the largest shareholder category (per cent, unweighted average)

The largest shareholder category	1 January 1998		1 January 1999		1 January 2000	
	C1	C5	C1	C5	C1	C5
1. Foreign investors	71.7	93.3	68.5	89.2	73.1	92.2
2. Domestic institutional shareholders	52.8	78.6	58.6	85.7	60.4	84.1
3. Domestic outsider individuals	48.2	61.9	49.5	62.0	44.0	64.3
4. Insiders	27.7	63.0	24.6	56.4	36.2	61.1

Source: own calculations.

Fifty per cent of companies under review have acquired a capital stake in other companies. Some of the companies hold shares in more than one other company, but as a rule these dependent companies are from the same sector of the economy. Most often, companies acquired controlling packages of shares or were minor shareholders (i.e., possessed less than 20 per cent of a capital stake in a firm). The most active were the companies with domestic institutional shareholders: 56.2 per cent of them acquired stakes in other firms. The second place belongs to companies with foreign investors (47.8 per cent), the third place to companies with dominance of domestic outsider individuals (37.5 per cent). The companies which belong to insiders — only 33.3 per cent of them has acquired property of other firms, are relatively less active

First of all, the companies under review were acquiring the stakes in other domestic industrial companies with a domestic dominant owner — here the companies with domestic institutional shareholders were the most active. They were also the most active acquiring property of firms which do not suit any particular category and are defined as “another type of firm”. Foreign investors, more often than domestic owners, preferred to buy or establish capital stakes in firms with foreign owners. Companies which belonged to domestic private individuals invested less than the above mentioned two groups, but if they acquired property, this was a controlling stake. Insider companies were least active and acquired property mainly in trade firms (see Table 12).

### **3. Authority and control structures**

In Poland, the continental model of corporate governance structure is developing. This model adopts the principle of strict separation between the management function and the ownership control function, as distinct from the Anglo-Saxon model in which these functions are to a large extent combined [Jerzemowska, 2000]. The adoption of the continental model as the target, assuring a strict owner control over the company’s executive bodies is particularly important, as in Poland, as well as in other post-communist countries, the influence of external control (in the form of commodity, financial and other markets) is in many cases still not sufficiently effective. In such conditions, efficient functioning of the internal supervision assumes fundamental importance [Rudolf, 2000]<sup>2</sup>. Moreover, the continental model seems to be more suitable for Poland, because it assumes the significant role of a strategic investor, who, especially foreign investor, bring to a company not only capital, but also a new culture of management, of company’s behaviour towards its environment, new technology etc. [Jarosz, 1997]

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<sup>2</sup> Not all Polish authors fully agree with that view. See [Szomburg et al., 2001].

Table 12

Capital investments in other firms (per cent of firms that have acquired a given stake)

Type of other firm	The largest shareholder category				Total
	Foreign investors	Domestic institutional shareholders	Domestic outsider individuals	Insiders	
Another industrial company with a domestic owner					
1. Less than 20%	21.7	25.0	–	11.1	17.5
2. 20% - 50%	8.7	9.4	–	–	6.3
3. More than 50%	17.4	28.1	31.3	11.1	23.8
Another industrial company with foreign owner					
1. Less than 20%	4.3	3.1	–	–	2.5
2. 20% - 50%	8.7	–	–	–	2.5
3. More than 50%	8.7	3.1	–	–	3.8
Bank or financial institution					
1. Less than 20%	–	9.4	–	–	3.8
2. 20% - 50%	–	–	–	–	–
3. More than 50%	–	–	–	–	–
Trade company					
1. Less than 20%	–	6.3	–	–	2.5
2. 20% - 50%	–	6.3	–	–	2.5
3. More than 50%	4.3	9.4	31.3	33.3	15.0
Consultancy or services firm					
1. Less than 20%	4.3	–	–	–	1.3
2. 20% - 50%	–	3.1	–	–	1.3
3. More than 50%	8.7	9.4	–	–	6.3
A firm abroad					
1. Less than 20%	4.3	3.1	–	–	2.5
2. 20% - 50%	–	3.1	–	–	1.3
3. More than 50%	8.7	–	18.8	–	6.3
Another type of firm					
1. Less than 20%	–	15.6	–	–	6.3
2. 20% - 50%	4.3	–	–	–	1.3
3. More than 50%	4.3	18.8	12.5	11.1	12.5

Source: own calculations.

In the continental model, there are three statutory bodies in a company: a general assembly of shareholders (meeting of partners), an executive board and a supervisory board. The Polish legislation (previously the Commercial Code, and since 2001 the Commercial Companies' Code) introduces the powers of these bodies in joint stock and limited liability companies. It stresses the necessity of strict division of powers between corporate governance bodies in companies, especially between management and supervisory functions. In particular, a shareholder or partner can assume a seat on the executive board or supervisory board, but it is forbidden to combine posts on the executive and the supervisory boards.

The weak point of Polish legislation is insufficient definition of the supervisory function in the corporate governance system. Polish law introduces only basic control functions of supervisory boards, leaving exact definition of the range of powers of this body at the discretion of the owners. Maybe this approach is suitable in the countries with a developed market economy, but in Poland, which is only at the stage of building a market infrastructure, it seems to be insufficient. In Poland, as well as in other post-communist countries, there is no sufficient experience in the functioning of market economy corporate government structures [Gronkiewicz-Waltz, 2001], especially of

ownership control bodies, because in former planned economy there were no analogues to such a body, neither to such a function [Kozarzewski, Woodward, 2001]. The studies performed by the author in Polish privatised SMEs have proved that quite a lot of these companies indeed have problems with the proper definition of the place of supervisory boards in their corporate governance structures [Kozarzewski, 2000b].

In the case of the largest privatised companies there is a hope that high concentration of shares in the hands of external strategic investors, especially foreign investors, will help to introduce proper corporate governance mechanisms in these companies.

### 3.1. Supervision

One of the main precondition of proper functioning of a supervisory board is its ability to represent interests of major shareholder groups. When analysing the supervisory boards' composition, one should bear in mind that the data obtained in the companies was not able to be not be 100 per cent accurate. We based the results on managers' answers. This could lead to misinterpretation of the term "representative" which could be understood as occupation of a given person. This situation can arise especially in firms where there is no voting for supervisory board members by shareholders' groups, or those groups do not correspond to our classification of shareholders.

Table 13

Supervisory boards' composition (per cent, unweighted average)

Representatives of	1 January 1998	1 January 1999	1 January 2000
1. Top managers of the company	2.3	2.3	2.2
2. Other employees of the company	14.8	14.3	13.2
3. Former employees and managers of the company	3.1	3.3	2.8
4. Other external private individuals	9.1	8.8	13.3
5. The State	9.3	8.0	6.9
6. Domestic industrial companies	10.2	10.5	11.8
7. Investment funds	15.0	13.5	10.7
8. Banks	5.9	6.2	4.6
9. Foreign investors / companies	18.8	19.1	23.5
10. Other	8.2	8.7	7.9
11. Is not a representative of any particular group	3.5	5.4	3.1

Percentages sum in columns.

Source: own calculations.

Table 13 shows an average composition of supervisory boards in the companies under review in the terms of representation of shareholders and stakeholders.

Comparing Table 13 with Table 1 one can see that average supervisory boards' composition roughly corresponds to the average ownership structure of the companies. Could produce a correlation table between the two?

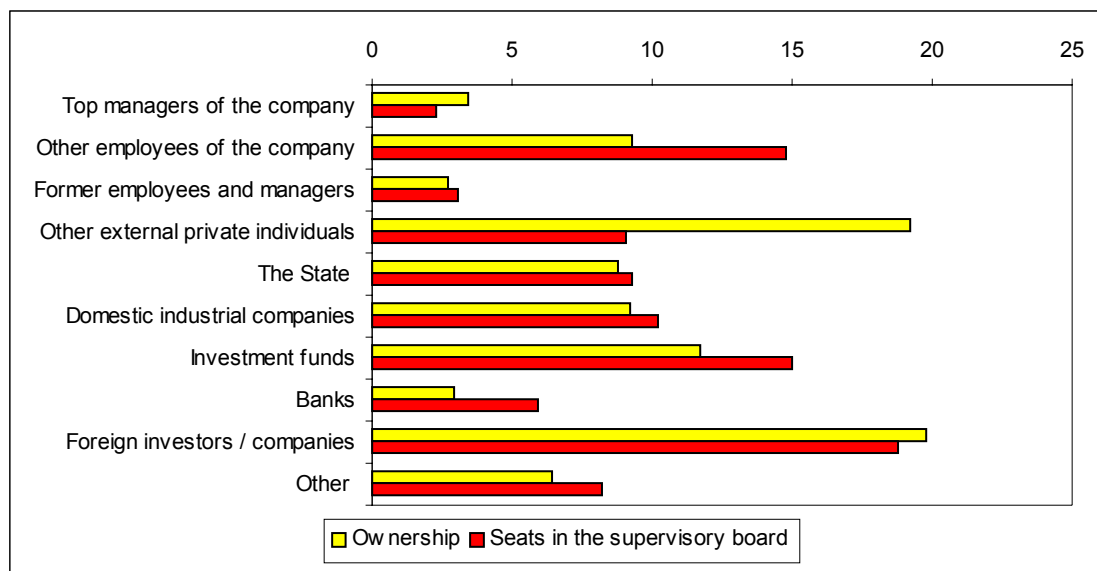
However, there is a small group of supervisory board members which is not identified with any shareholder group. There is also some under- and overrepresentation in the supervisory boards, which can be seen in Graphs 1 – 3.

Among insiders, top managers seem to be underrepresented in the supervisory boards, while other employees are overrepresented. It can be caused firstly by the specificity of privatisation of large enterprises in Poland. At the stage of commercialisation employees had a right to elect their representatives for 1/3 of the whole number of seats in the supervisory board. This could also have lead to overall slight overrepresentation of insiders, which is seen in the companies under review. Nevertheless, the composition of analysed supervisory boards appears to be far more "healthy" and

transparent, than in the case of small and medium-sized privatised enterprises, where, as a rule, insiders have a majority of seats in supervisory boards even in the companies controlled by outsiders.

*Graph 1*

Percentage of shares possessed by groups of owners and percentage of seats for these groups in the supervisory boards, 1 January 1998



Source: own calculations.

*Graph 2*

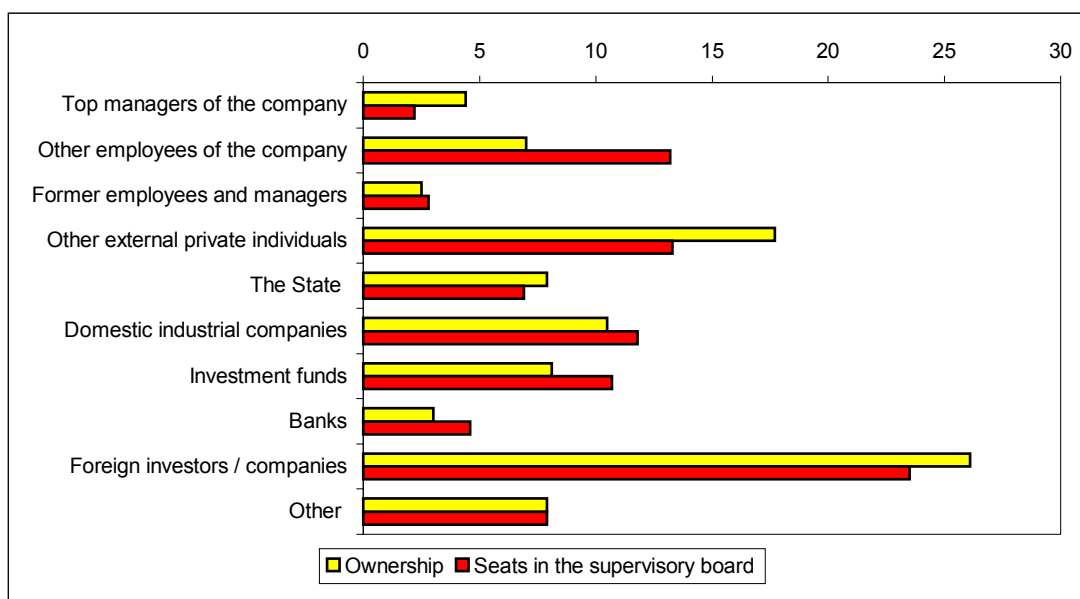
Percentage of shares possessed by groups of owners and percentage of seats for these groups in the supervisory boards, 1 January 1999



Source: own calculations.

*Graph 3*

Percentage of shares possessed by groups of owners and percentage of seats for these groups in the supervisory boards, 1 January 2000



Source: own calculations.

Among outsiders, which on average are slightly underrepresented, the most underrepresented group are domestic private individuals, but this situation is gradually improving. Also foreign investors seem to be underrepresented a little. On the other hand, overrepresentation of banks in the supervisory boards is worth mentioning. It can be assumed that banks' representatives in fact represent not only shareholders, but also stakeholders<sup>3</sup>. The question of banks' influence on the companies under review is analysed in one of the next parts of the paper.

Table 14 reveals that the underrepresentation of domestic private individuals is especially deep in the companies where this very group is the largest shareholder group. However, the situation seems to improve by the beginning of 2000. Foreign investors are underrepresented only in companies controlled by this shareholder group, while in other groups of companies they are rather overrepresented. Banks are overrepresented first of all in the companies which are controlled by domestic outsiders — both private and institutional. Paradoxically, top managers are heavily underrepresented in the supervisory boards of insider-dominated companies, while representation of other insiders seems to be more or less adequate. It means that insiders, as a whole are, underrepresented in this group of companies. In other of companies, the situation is quite different: here at least one insider group is overrepresented (Table 14).

These observations could reflect different approaches to executive board composition adopted in various groups of companies. Outsider dominated companies tend to include insiders' representatives in their supervisory boards, while insider dominated firms are more often seeking for outsiders for their supervisory board, predominantly among private individuals. It can be said that in all groups of companies supervisory boards happen to include not only representatives of owners, but also representatives of certain stakeholders, which are diverse in various types of companies (see Table 15).

<sup>3</sup> See also [Groszek, 1997].

Table 14

Ownership structure and the structure of the supervisory boards' composition in the companies (per cent, unweighted average)

Shareholders and representatives	The largest shareholder category							
	Foreign investors		Domestic institutional shareholders		Domestic outsider individuals		Insiders	
	Owners hip	Supervi sory Board	Owners hip	Supervi sory Board	Owners hip	Supervi sory Board	Owners hip	Supervi sory Board
1 January 1998								
1. Top managers	0.6	0.0	1.8	0.6	3.9	7.8	14.2	6.3
2. Other employees	1.0	4.3	5.2	12.5	5.8	15.4	47.4	40.7
3. Former employees and managers of the company	0.0	0.0	1.1	1.1	2.1	3.9	15.0	16.4
4. External private individuals	4.2	9.3	2.3	0.8	80.2	30.8	11.4	15.2
5. The State	6.7	10.6	13.0	11.4	3.8	4.4	5.5	5.4
6. Domestic industrial companies	5.8	5.1	17.4	17.7	0.0	0.0	0.2	0.0
7. Investment funds	0.0	0.0	25.9	27.7	0.0	6.8	0.9	7.1
8. Banks	1.5	1.6	5.4	10.7	1.0	2.6	0.0	0.0
9. Foreign entity	74.4	61.0	2.1	5.3	2.9	6.5	5.4	6.3
10. Other	0.0	2.4	14.3	9.9	0.0	18.8	0.0	0.0
11. Is not a representative of any particular group	x	5.7	x	2.2	x	3.1	x	2.8
1 January 1999								
1. Top managers	0.3	1.5	0.4	0.0	3.8	2.6	13.9	10.7
2. Other employees	0.3	5.5	5.0	11.3	3.4	15.6	39.9	35.2
3. Former employees and managers of the company	0.2	0.0	1.2	1.3	1.9	3.9	19.6	14.8
4. External private individuals	5.0	6.2	2.7	1.2	81.8	26.9	10.8	18.1
5. The State	5.5	9.1	14.0	11.4	1.8	1.8	4.9	4.3
6. Domestic industrial companies	5.9	4.2	17.3	20.3	0.0	0.0	0.2	0.0
7. Investment funds	0.0	0.8	27.8	27.0	0.0	5.5	0.9	5.7
8. Banks	1.7	2.7	4.1	11.3	1.4	4.3	0.0	0.0
9. Foreign entity	72.4	58.6	3.4	5.9	2.9	3.9	4.9	5.0
10. Other	0.1	6.7	17.3	7.2	0.0	25.1	0.0	0.0
11. Is not a representative of any particular group	x	4.7	x	3.1	x	10.4		6.2
1 January 2000								
1. Top managers	0.3	0.0	0.7	0.0	5.2	8.5	27.0	5.6
2. Other employees	1.3	3.5	3.8	11.8	5.8	12.3	35.4	41.6
3. Former employees and managers of the company	0.2	0.0	1.6	0.6	2.8	5.7	11.3	13.0
4. External private individuals	3.8	3.8	3.2	6.8	74.0	40.1	5.8	20.1
5. The State	6.3	7.5	12.1	10.1	1.6	1.5	8.6	3.2
6. Domestic industrial companies	2.9	8.3	23.6	23.2	1.5	0.0	0.1	0.0
7. Investment funds	0.0	0.7	20.3	24.1	0.0	0.0	0.8	6.3
8. Banks	2.5	2.3	5.1	8.3	1.3	3.1	0.0	0.0
9. Foreign entity	76.4	62.8	4.1	7.4	6.2	7.1	5.4	5.6
10. Other	0.0	7.3	20.0	6.3	0.0	19.0	0.0	0.0
11. Is not a representative of any particular group	x	3.8	x	1.4	x	2.6	x	4.7



Percentages sum up in columns.  
Source: own calculations.

*Table 15*  
Prevailing type of stakeholders in the companies with various patterns of ownership domination

The largest shareholder category	Prevailing stakeholder type
1. Foreign investors / companies	Non-industrial firms (probably some customers or suppliers)
2. Domestic institutions	Insiders and banks
3. Domestic outsider individuals	Insiders (including top managers) and non-industrial domestic firms (in earlier years, also investment funds)
4. Insiders	Domestic outsider individuals and investment funds

There is some evidence that in the companies with higher ownership concentration (measured by shares possessed by one largest shareholder — C1) domination of a certain owners' group is not accompanied by its domination in the supervisory board and this situation can be seen in growing number of enterprises. This can be regarded as a demonstration of certain differences in ownership control policy in different companies. Maybe an investor who has a vast majority of shares more often than other investors does not see a necessity to have formal domination in supervisory board as well, so he invites to this body representatives of various stakeholders.

Are those under- and overrepresentativeness always "safe"? In other words, is a largest shareholder always able to keep his dominance in the supervisory board of his company? If we compare Table 16 with Table 10, one could come to a conclusion, that on the whole they were rather "safe", especially at the beginning of 2000.

*Table 16*  
Largest group in the supervisory board (per cent of companies)

The largest group	1 January 1998	1 January 1999	1 January 2000
1. Foreign investors / companies	29.4	25.7	31.5
2. Domestic institutions	51.5	52.9	43.8
3. Domestic outsider individuals	10.3	10.0	15.1
4. Insiders	8.8	11.4	9.6

Percentages sum in columns.  
Source: own calculations.

However, detailed analysis in the companies which are controlled by different shareholder groups shows that the situation in this field is highly differentiated (see Table 17). In most companies domination of foreign or domestic institutional shareholders is followed by their domination in supervisory boards, although this domination seems to weaken over time. On the other hand, ownership domination often is not accompanied by domination in supervisory boards in companies, where largest blocks of shares belong to insiders and especially private outsider individuals. However, in some of these companies efforts aimed at consolidation of control over this body can be seen.

A question arises, whether this gap between ownership and control dominations really affects companies' behaviour. There is a strong suspicion, backed by empirical observations [Lis, Sterniczuk, 2001], especially in small and medium-sized privatised companies in Poland [Kozarzewski, 2000b], that in number of cases, supervisory boards are rather weak (first of all in insider controlled companies) and do not influence the companies functioning. Thus their composition could be of less importance.

But, on the other hand, the data obtained in the companies can be regarded as evidence that institutional external shareholders are more able to secure their interests (in this case in the supervisory body) than private individual shareholders — both external and internal.

*Table 17*

Largest group in the supervisory board in the companies controlled by different groups of shareholders (per cent)

The largest group in a supervisory board	The largest shareholder category			
	Foreign investors	Domestic institutional shareholders	Domestic outsider individuals	Insiders
1 January 1998				
1. Foreign investors / companies	92.9	6.3	18.2	12.5
2. Domestic institutions	–	93.8	27.3	12.5
3. Domestic outsider individuals	7.1	–	36.4	25.0
4. Insiders	–	–	18.2	50.0
1 January 1999				
1. Foreign investors / companies	88.2	3.3	9.1	–
2. Domestic institutions	5.9	96.7	45.5	10.0
3. Domestic outsider individuals	5.9	–	36.4	20.0
4. Insiders	–	–	9.1	70.0
1 January 2000				
1. Foreign investors / companies	85.7	6.7	15.4	–
2. Domestic institutions	9.5	86.7	23.1	12.5
3. Domestic outsider individuals	4.8	6.7	46.2	25.0
4. Insiders	–	–	15.4	62.5

Percentages sum up in columns.

Source: own calculations.

### **3.2. Management**

The process of changes in managerial posts in privatised companies can be regarded in the terms of reproduction vs. changes in managerial elites of a former SOE [Wasilewski, Wnuk-Lipinski, 1995]. Privatised enterprises represent a continuation (in economic, organizational, social and other ways) of a former entity: state-owned enterprise. SOEs had their own organizational structure, each body having its own competencies to which all actors had got accustomed; in most SOEs, stable structures of power and influence had been established and many insider actors are afraid of losing them after privatisation. One can expect that these factors would lead to a large share of insiders, especially the managerial staff, in the ownership and influence structure of the companies established, as a result of privatisation and that in corporate governance bodies reproduction of elites of former state-owned enterprise would prevail over elites' change. In a large number of companies, there were already a series of changes on managerial posts after privatisation, but still very often the circle of insider elites remained unaffected.

This appears to have proved to be true not only in the case of privatisation of SMEs, especially in management-employee buyouts which were very popular in Poland [Kozarzewski, 2000a], but also in privatisation of large enterprises [Błaszczyk, Woodward, 1999].

However, our research shows that in the largest companies the reproduction of elites is broken frequently even in firms which could be expected to be especially predisposed to elites' reproduction: insider controlled companies. In the previous section of the paper, we

saw that in the field of ownership supervision, one could see only traces of elites' reproduction. In the case of management, elements of such a reproduction are found approximately in every second enterprise. As a rule, this reproduction is "straight": directors of insider origin formerly were managers.

Different abilities of various groups of shareholders in building a corporate governance system in the companies could be seen not only in the case of ownership supervision function, but also in the case of composition of the executive boards in the companies under review. It seems quite logical, that former insider elites more seldom occupy seats in executive boards in the companies controlled by foreign investors (see Table 18), but a relatively small number of managers of insider origin in insider controlled companies is astonishing. In 1/3 of these companies there is no insiders in the executives boards at all! (See Table 19.) Executive Board Presidents in insider-dominated companies are as a rule outsiders (see Table 20).

*Table 18*

Previous occupation of executive boards' members (unweighted average)

Place of occupation before becoming an executive board member	The largest shareholder category				Total
	Foreign investors	Domestic institutional shareholders	Domestic outsider individuals	Insiders	
1. In the same company	40.1	44.7	67.1	45.8	47.6
2. In other state-owned enterprise	5.3	13.3	6.9	–	8.2
3. In other privatised company	9.0	18.5	11.1	27.1	15.5
4. In new private company	2.6	7.7	4.2	8.3	5.7
5. In foreign company	43.0	10.5	6.9	6.3	18.7
6. In financial institution	–	2.9	3.8	8.3	2.9
7. In the State administration	–	2.5	–	4.2	1.5

Percentages sum in columns.

Source: own calculations.

*Table 19*

Previous occupation of executive boards' members (per cent of companies where at least one such a person works)

Place of occupation before becoming an executive board member	The largest shareholder category				Total
	Foreign investors	Domestic institutional shareholders	Domestic outsider individuals	Insiders	
1. In the same company	84.2	74.1	91.7	62.5	78.8
2. In other state-owned enterprise	10.5	29.6	16.7	–	18.2
3. In other privatised company	21.1	40.7	16.7	37.5	30.3
4. In new private company	5.3	14.8	8.3	25.0	12.1
5. In foreign company	78.9	14.8	16.7	12.5	33.3
6. In financial institution	–	11.1	16.7	12.5	9.1
7. In the State administration	–	7.4	–	12.5	4.5

Source: own calculations.

The opposite pole is represented by the companies where the biggest ownership group are domestic outsider individuals (on average, insiders occupy 2/3 of places on executive boards of these companies). In almost all such companies, there is at least one insider member of an executive board and in 3/4 of cases, an Executive Board President is also of insider origin.

The policy of foreign owners seems to be quite interesting: in almost 80 per cent of the companies which are under their control, they have introduced at least one manager which has experience in working abroad; on average, such persons occupy nearly half of the seats in the executive boards. On the other hand, foreign owners do not disregard insiders of the companies: on average, they occupy 40 per cent of seats in the executive boards and exist in 84 per cent of the companies. Moreover, in more than a half of foreign-controlled companies, Executive Board Presidents are of insider origin. It looks like a significant number of foreign investors are trying not to impose “imported” managers on their companies, but rather to educate local people, which for some reasons could prove to be more efficient than outsiders.

*Table 20*

Previous occupation of current executive board president (per cent)

Place of previous occupation of the Executive Board President	The largest shareholder category				Total
	Foreign investors	Domestic institutional shareholders	Domestic outsider individuals	Insiders	
1. In the same company	54.5	41.9	75.0	25.0	50.6
2. In other state-owned enterprise	–	9.7	12.5	–	6.5
3. In other privatised company	13.6	25.8	6.3	25.0	18.2
4. In new private company	4.5	6.5	6.3	25.0	7.8
5. In foreign company	27.3	12.9	–	12.5	14.3
6. In financial institution	–	–	–	–	–
7. In the State administration	–	3.2	–	12.5	2.6

Percentages sum in columns.

Source: own calculations.

Domestic institutional shareholders seem to conduct a similar policy, but when they are strengthening the executive boards with outsiders, they prefer to use managers from other Polish privatised firms, rather than “imported” managers.

*Table 21*

The subjective level of independence which the management team has in decision-making process (average from 1 = decided by the owners to 7 = decided by the executive team)

Decisions	The largest shareholder category				Total
	Foreign investors	Domestic institutional shareholders	Domestic outsider individuals	Insiders	
1. Product mix	4.9	5.9	6.3	6.4	5.7
2. Selection of customers	5.4	5.8	6.3	6.0	5.8
3. Selection of suppliers	5.0	6.0	5.9	6.4	5.7
4. Investment	3.9	4.6	5.3	5.2	4.6
5. Research and development	3.6	5.4	6.0	6.3	5.1
6. Finances	4.8	4.9	6.0	6.3	5.2
7. Employment	5.5	5.6	6.2	6.4	5.8
8. Wages	5.6	5.7	6.0	6.7	5.8
9. Patterns of management and organisation	5.3	5.6	5.9	6.1	5.6
10. Price policy and marketing	5.0	6.0	6.0	5.4	5.6
11. Choice of trade partners	5.1	5.9	6.3	6.7	5.8
Average independence level	4.9	5.6	6.3	6.4	5.6

Source: own calculations.

Managers in various groups of companies not only are required differently, the scope of their independence and responsibility is also different. On the whole, managers in foreign-dominated companies have the lowest level of independence, especially in the field of R&D and investment. The relatively most independent are managers in the companies, where the largest group of shareholders are private persons, especially insiders. Companies dominated by domestic institutional shareholders represent the average level of these indices (see Table 21).

It is very important that independence of managers is linked with ownership concentration: in the companies with lower ownership concentration managers are more independent than in companies with high ownership concentration. The average managers' independence level is strongly negatively correlated with both C1 and C5 on a significance level better than 0.01.

If we compare findings on executive boards composition and powers with the data on patterns of ownership structure and on the structure of supervisory boards, a hypothesis could be formulated: in the companies where a majority of shares belongs to private individuals, and first of all to insiders, this majority is often rather formal and does not ensure a real control over the company. In some cases, minor shareholder groups could exert real influence on companies; in other cases, there could be some stakeholder groups that rule in companies. Maybe in some companies an outsider who acquired a large block of shares, wishes to manage the company himself, thus becoming an insider (as previous studies show, such events took place in some privatised small and medium-sized enterprises [Kozarzewski, 2000a]).

### ***3.3. The role of banks***

One of the characteristic features of Polish privatisation is a very modest role of banks (at least in the terms of buying out the state property) which is also seen in our survey, in the ownership structure of the companies under review. In 2000, banks possessed shares only in 11 companies out of 84, and in only one company such a stake was a controlling stake. However, the available data deliver some evidence that real influence of banks on the companies could be higher than it could be assumed basing only on the information about ownership structure. As it was shown above, banks are overrepresented in the supervisory boards of the companies. Besides, a bank can use one peculiar channel of exerting influence over a company: its credit policy. In the years 1999-2000, only 7 per cent of the companies did not rise bank loans.

Banks rather seldom had a need to intervene in the companies because of some crisis situation caused by not meeting payments of interest and capital. A vast majority of the companies (76 per cent) had no such a problem at all. However, if the problem arised, in every case the bank tried to resolve the issue by means of personal discussions with the company's managers which in most cases ended with rescheduling of loan payments. As a rule, the banks also undertook some other measures — more often repressive (legal action, refusal to give a new loan) than monitoring (decision by the bank to keep the situation under review).

The level of banks' involvement in decision-making process in the companies seems to depend first of all on the companies' indebtedness and problems with paying off the debts, rather than on banks' engagement in companies' property. When a company has no debts, the managers do not see any influence of a bank. On the other pole, when a company has problems with paying off its debts such an influence is the most visible. In this situation, a bank prefers to change behaviour of the company (in the field of operational and investment decisions) rather than introduce personal changes and decide on managers' remuneration (see Table 22). This way the bank tries to secure its interests

as a creditor. When a bank possesses shares in a company, it tries first of all to influence the appointing of the executive board members and strategic investment decisions of that company, not interfering in operational decision-making. Thus it behaves more as an owner, although in almost all cases such a bank is at the same time a creditor of the company (in 10 cases out of 11).

*Table 22*

The level of banks' influence on managers' decisions (average from 1 = not important to 7 = high importance)

Influence of the bank on:	Is the bank a shareholder?		Does the company have problems with meeting payments of interest and capital?			Total
	No	Yes	Has no loans	No	Yes	
1. Appointing of the executive board members	1.2	2.1	1.0	1.2	1.9	1.3
2. Operational decisions of managers	1.4	1.4	1.0	1.3	2.3	1.4
3. Directors' remuneration	1.1	1.7	1.0	1.1	1.5	1.2
4. Strategic investment decision	1.7	2.0	1.0	1.6	2.3	1.7
Average level of influence	1.4	1.8	1.0	1.3	2.0	1.4

Source: own calculations.

It should be noted, however, that the banks' influence on the companies under review is not widespread and applies only to one fourth of the total number of the firms polled. But even in these firms the average assessment of the banks' influence level is quite low (2.5 on the scale from 1 to 7).

At the same time managers of the two thirds of the companies see certain channels of banks' influence. Some of them are considered to be important, but this importance is rather potential, if we take into account what has been said above. When using these channels, the banks apparently most often try not to influence the managers' decisions directly, but to monitor the situation in the companies, especially indebted ones and above all those companies which have problems with paying off their debts to the banks.

Table 23 shows that some channels are considered to be more important when a bank performs a role of an owner rather than a creditor and vice versa. But here we see again, that the perceived channels' importance is more correlated with creditor function of banks, than with their owner function.

*Table 23*

The importance of the channels of banks' influence on managers' decisions (average from 1 = not important to 7 = high importance)

Channels of the bank's influence	Is the bank a shareholder?		Does the company have problems with meeting payments of interest and capital?			Total
	No	Yes	Has no loans	No	Yes	
1. Representation on supervisory board	1.1	2.5	1.0	1.2	1.9	1.3
2. Regular visits to the company	1.8	3.6	1.0	1.9	2.9	2.0
3. Telephone contacts	2.6	3.9	1.0	2.7	3.7	2.8
4. Monitoring of debt covenants	2.6	3.9	1.0	2.6	4.1	2.7
5. Sending accounts to the bank	3.1	5.4	2.2	3.1	5.1	3.4

Average level of channels' importance	2.2	3.9	1.2	2.3	3.5	2.4
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Source: own calculations.

The extremely modest role of banks' representation in the supervisory boards is also worth mentioning. Even in the companies where a stock of shares belongs to a bank, the supervisory board is perceived by the managers as the least important channel of exerting influence. And in the sole company, where the controlling stake belongs to a bank, this channel is considered to be totally unimportant!

The problem of banks' role in managing the largest Polish industrial companies should be the subject of further extensive research, but at present moment we can already draw the following preliminary conclusions:

1. The role of banks is higher than their involvement in companies property and level of participation in supervisory boards. However, the overall role of banks is still very modest.

2. Nevertheless, banks have important channels of monitoring the situation in most enterprises, so there is a potential for the growth of the banks' influence on companies' management.

3. Banks see the companies mostly as actual and potential debtors rather than a source of property.

#### 4. Performance

In 2000, companies controlled by foreign investors were the largest in terms of revenues, assets and employment. At the same time they had the biggest gross and net profits, as well as investments. They exported and spent on R&D two times more than an average company in the whole sample. Compared to this, the wage fund seems is modest. Companies which belong to domestic institutional shareholders were also among the largest in the terms of employment, but their revenues were comparably small and on the whole they were unprofitable. However, they tried to invest and to finance research and development activities. Companies controlled by domestic outsider individuals were smaller than the previous group, but basically they were in the same condition. Insider companies were the smallest in terms of employment. They were obviously "employee-oriented", having the biggest wage fund, paying the highest dividends and, unfortunately, having the lowest level of investments, R&D expenditures and exports (see Table 24).

*Table 24*

Performance of the companies divided according to the biggest shareholder category, 2000 (thousand zlotys, unweighted average)

Companies data	The largest shareholder category				
	Foreign investors	Domestic institutional shareholders	Domestic outsider individuals	Insiders	Total
1. Total revenues	469806.7	198707.7	140252.5	253460.7	272033.9
2. Gross profit	27648.0	-13142.4	-1980.3	3424.3	2845.9
3. Net profit	19047.8	-14548.7	-1440.5	469.0	-451.8
4. Exports	102381.9	38443.1	21884.7	693.3	49073.4
5. Investment	15075.8	6258.7	10163.3	4151.9	9258.2
6. Research & development	9867.6	748.8	6878.8	77.4	4065.6
7. Total assets	322453.8	152244.2	82395.4	137291.1	182680.9
8. Total equity	158831.7	48791.2	34619.4	50166.4	75616.4
9. Total dividends	905.8	261.4	193.8	970.6	495.2

10. Total wage fund	40274.3	40682.6	51985.6	84019.7	47197.1
11. Employment (persons)	1067.1	1056.7	766.9	637.8	958.4

Source: own calculations.

In order to estimate the impact of ownership structure on companies' performance, the ownership structure at the beginning of 1998 was taken as a starting point. Then changes in figures during 1998-2000 in every group of companies were analysed.

In all groups of companies there was a growth of total revenues, but only companies controlled by foreign investors showed an increase in profits. Insider-dominated companies decreased their profits and, once profitable, domestic outsiders dominated companies were bearing more and more heavy losses. Only foreign-dominated companies showed a steady increase in exports. The other pole was represented by the companies controlled by domestic institutional shareholders, where exports were stagnating. The investment level was changing significantly in the subsequent years and there was no group, where there was a steady increase. Unfortunately, foreign-controlled companies, which generally showed an increase in performance, were making more and more significant cuts in their investment programmes. Probably the owners of these companies were paying special attention to capital gains, because at the same time the value of dividends were growing. Fortunately, these companies were increasing their spendings on R&D very quickly. Other groups of companies also increased expenditures in this field, but not as much (see Table 25).

*Table 25*

Performance of the companies in 1998-200 and the biggest shareholder category on 1 January 1998 (thousand zlotys, unweighted average)

The largest shareholder category on 1 January 1998	1998	1999	2000
Total revenues			
1. Foreign investors	312074.2	340047.7	486656.5
2. Domestic institutional shareholders	201444.8	203968.7	204486.8
3. Domestic outsider individuals	120939.9	127966.5	149694.1
4. Insiders	175631.0	220427.8	266797.0
Gross profit			
1. Foreign investors	16310.1	31776.8	34670.8
2. Domestic institutional shareholders	3983.0	-4004.9	-10125.0
3. Domestic outsider individuals	1496.4	-716.9	-3585.5
4. Insiders	15664.3	18029.2	10102.0
Net profit			
1. Foreign investors	9209.1	22190.1	24844.4
2. Domestic institutional shareholders	2222.6	-7689.5	-10889.4
3. Domestic outsider individuals	590.4	-225.7	-3155.1
4. Insiders	10086.5	11815.3	6536.3
Exports			
1. Foreign investors	52885.2	77878.8	123754.7
2. Domestic institutional shareholders	29410.5	25892.2	29729.3
3. Domestic outsider individuals	20502.2	20949.5	22957.1
4. Insiders	438.9	345.2	773.6
Investment			
1. Foreign investors	54193.1	40013.1	18993.5
2. Domestic institutional shareholders	19974.9	9844.5	5998.1
3. Domestic outsider individuals	8383.6	6479.2	7308.7
4. Insiders	4322.9	10302.1	6248.6
Research and development expenditures			
1. Foreign investors	489.9	1179.7	11363.9



The largest shareholder category on 1 January 1998	1998	1999	2000
2. Domestic institutional shareholders	691.8	592.5	714.5
3. Domestic outsider individuals	1965.0	3527.1	6922.8
4. Insiders	87.0	76.2	108.4
Total assets			
1. Foreign investors	226124.7	267626.1	314569.3
2. Domestic institutional shareholders	154723.6	158655.1	159705.0
3. Domestic outsider individuals	61019.1	68764.3	75400.4
4. Insiders	101288.1	141417.3	158123.5
Total equity			
1. Foreign investors	78745.5	112124.9	133256.4
2. Domestic institutional shareholders	90517.3	79929.9	59567.3
3. Domestic outsider individuals	31329.1	32838.1	26303.9
4. Insiders	48744.3	71332.9	70656.6
Total dividends			
1. Foreign investors	83.5	1227.6	1229.3
2. Domestic institutional shareholders	291.5	346.3	219.0
3. Domestic outsider individuals	195.1	86.9	138.5
4. Insiders	1975.4	2637.7	1337.1
Total wage fund			
1. Foreign investors	27188.2	26560.1	37458.6
2. Domestic institutional shareholders	38917.5	39640.6	40761.3
3. Domestic outsider individuals	41396.5	39072.7	53301.1
4. Insiders	77207.0	94346.8	102236.0
Employment (persons)			
1. Foreign investors	848.1	806.3	689.4
2. Domestic institutional shareholders	1554.6	1397.7	1204.2
3. Domestic outsider individuals	776.7	1177.9	773.9
4. Insiders	699.3	674.0	645.0

Source: own calculations.

Companies, where the largest blocks of shares belonged to foreign investors or to insiders, showed the fastest growth in total assets and total equity, while both group of companies controlled by domestic outsiders were characterized by a slower growth of assets and a significant reduction in the total value of equity, which can be explained by poor profitability of these companies. All groups of companies were reducing jobs (except a period when there was an increase in employment in the companies where domestic outsider individuals were the largest group of shareholders), foreign-dominated companies more significantly than others.

Foreign-dominated firms also had the best indicators which described profitability and effectiveness. It is worth noting, that they had the highest total revenues per employee and also the lowest costs of workforce. All the indicators were improving in the period of 1998-1999, then profitability indices fell slightly, yet remaining the best in the sample. Other companies showed only an increase in total revenues per employee and total wage fund per employee; profitability indicators were falling. A relatively more satisfactory situation was seen in insider-dominated companies, while the worst situation was in the companies which were controlled by domestic institutional shareholders (see Table 26).

Table 26

Profitability and effectiveness of the companies in 1998-2000 and the biggest shareholder category on 1 January 1998 (aggregated data)

The largest shareholder category on 1 January 1998	1998	1999	2000
Net profitability (per cent)			
1. Foreign investors	2.6	4.8	4.1
2. Domestic institutional shareholders	1.1	-4.1	-7.3
3. Domestic outsider individuals	2.4	1.6	-1.0
4. Insiders	2.0	2.5	0.2
ROA (per cent)			
1. Foreign investors	3.7	6.2	5.9
2. Domestic institutional shareholders	1.4	-5.3	-9.6
3. Domestic outsider individuals	4.4	3.0	-1.7
4. Insiders	0.2	4.2	0.3
ROE (per cent)			
1. Foreign investors	8.3	13.0	12.0
2. Domestic institutional shareholders	2.6	-11.6	-29.8
3. Domestic outsider individuals	8.4	5.2	-4.2
4. Insiders	7.9	9.5	0.9
Total revenues per employee (thousand zlotys)			
1. Foreign investors	288.2	307.9	440.2
2. Domestic institutional shareholders	144.3	165.6	188.0
3. Domestic outsider individuals	143.5	109.5	182.9
4. Insiders	206.6	280.2	397.4
Total wage fund per employee (thousand zlotys)			
1. Foreign investors	25.5	27.0	37.7
2. Domestic institutional shareholders	29.2	32.6	38.5
3. Domestic outsider individuals	48.4	33.0	67.8
4. Insiders	82.8	108.5	131.7

Source: own calculations.

Because of the significant correlation between the largest ownership group and ownership concentration level, figures for various types of such a concentration are rather predictable. Companies with highest ownership concentration are as a rule similar to the companies dominated by foreign investors, and companies with lowest concentration of shares are similar to insider-dominated firms. Two middle categories of concentration also have corresponding types of dominating type of investor (see Table 27).

Table 27

Performance of the companies in 1998-2000 and the level of concentration of shares in the hands of a biggest shareholder on 1 January 1998 (thousand zlotys, unweighted average)

C1 on 1 January 1998	1998	1999	2000
Total revenues			
1. Up to 25%	179882.2	205519.6	249236.9
2. 25% – 50%	177135.6	174926.7	181568.9
3. 50% – 75%	250778.8	292166.8	367471.5
4. More than 75%	241007.3	234813.3	313692.4
Gross profit			
1. Up to 25%	16159.0	16111.3	16712.6
2. 25% – 50%	3207.2	-159.7	-3307.0
3. 50% – 75%	1929.3	-1500.1	-10374.1
4. More than 75%	11613.1	15468.4	15195.8
Net profit			
1. Up to 25%	9498.8	8552.4	10901.7
2. 25% – 50%	1945.9	-362.4	-2891.0
3. 50% – 75%	750.2	-3554.4	-12277.6
4. More than 75%	7101.5	4502.9	8704.5
Exports			
1. Up to 25%	10607.3	12783.8	14648.9
2. 25% – 50%	41394.7	35954.3	39087.0
3. 50% – 75%	28474.9	26382.8	52586.0
4. More than 75%	54294.3	76634.7	105145.1
Investment			
1. Up to 25%	17838.7	24221.7	5489.0
2. 25% – 50%	35519.5	12966.5	8946.6
3. 50% – 75%	11616.2	9744.9	5019.1
4. More than 75%	35425.4	22631.4	17159.5
Research and development expenditures			
1. Up to 25%	596.3	591.7	454.8
2. 25% – 50%	663.9	852.9	369.3
3. 50% – 75%	461.7	516.6	464.6
4. More than 75%	1746.3	2506.6	12762.9
Total assets			
1. Up to 25%	128320.3	167233.4	220150.5
2. 25% – 50%	173069.3	168113.2	178802.1
3. 50% – 75%	137037.1	149587.3	142212.7
4. More than 75%	173528.4	195869.3	223184.8
Total equity			
1. Up to 25%	73210.1	110286.3	135414.9
2. 25% – 50%	93636.3	80440.7	73030.6
3. 50% – 75%	61532.9	53768.7	25311.5
4. More than 75%	72939.1	77559.9	78555.0
Total dividends			
1. Up to 25%	674.3	808.4	644.3
2. 25% – 50%	291.7	658.4	144.8
3. 50% – 75%	308.6	229.2	598.4
4. More than 75%	6.8	1197.7	1141.6
Total wage fund			
1. Up to 25%	53013.4	59353.0	71901.7
2. 25% – 50%	45941.0	50499.5	52959.2
3. 50% – 75%	41603.8	38999.1	40986.6
4. More than 75%	33094.1	26899.4	39630.9

CI on 1 January 1998	1998	1999	2000
Employment (persons)			
1. Up to 25%	1049.7	1608.1	1095.1
2. 25% – 50%	1459.6	1334.0	1254.8
3. 50% – 75%	1073.6	964.1	769.6
4. More than 75%	1115.1	980.5	866.5

Source: own calculations.

A question arises, what factors have a greater influence on the companies' performance: the type of dominating owner or level of ownership concentration? This question should be a subject for further analysis. At the present stage, one could suspect a rather primal role for the type of investors', because there is no correlation between level of concentration and companies' figures (there is only a rather weak positive correlation between concentration and exports at an acceptable significance level). There is no correlation between initial (i.e. at the beginning of 1998) level of concentration and the dynamics of the above-mentioned figures for the whole period of 1998-2000. Whereas there is strong visible correlation between these dynamics and the largest shareholder group (see Table 28).

As seen in Table 28, compared to other groups of companies, foreign-dominated companies have higher dynamics of almost all performance indicators, except investment and employment dynamics, as well as showing "the second best result" in dynamics of the value of total assets. Companies under control of domestic external shareholders (both institutional and individual) are characterized by the lowest dynamics of investment and total equity value, which is probably caused by their poor economic condition. Insider-dominated companies show fair results with above-average dynamics of most indicators, being the sole group which increased investments.

The analysis has revealed one more particular group of companies which performance can be considered as unsatisfactory and deteriorating over time. These are firms, in which the State is a strategic investor, i.e., possesses 20 per cent of shares and more (see Table 29). It is not clear, whether this is caused by the presence of the State itself, or simply the State is not able to sell shares of unprofitable companies. Probably the second explanation is closer to the truth because in these companies all four main shareholder categories are present and if we divide these companies into corresponding groups, all of them will be characterized by unsatisfactory performance. In the next stage of the research, attention should be paid to this matter.

*Table 28*

Dynamics of performance indicators for the period 1998-2000 and the biggest shareholder category on 1 January 1998 (aggregated data)

Performance	The largest shareholder category				Total
	Foreign investors	Domestic institutional shareholders	Domestic outsider individuals	Insiders	
1. Total revenues	1.56	1.05	1.24	1.52	1.30
2. Exports	2.34	1.04	1.12	1.98	1.59
3. Investment	0.35	0.31	0.87	1.45	0.40
4. Research and development	25.13	1.07	3.84	1.25	5.33
5. Total assets	1.39	1.03	1.24	1.56	1.21
6. Total equity	1.69	0.68	0.84	1.45	0.99
7. Total wage fund	1.38	1.08	1.29	1.32	1.21
8. Employment	0.77	0.82	0.93	0.92	0.84

Source: own calculations.

The impact of other corporate governance indicators on the companies' performance also was analysed, particularly of the companies' bodies composition, over- or under representation of main shareholder groups in supervisory boards, the level of independence of top managers. All of them showed either no correlation with performance indicators at all, or such a correlation was obviously secondary regarding ownership structure.

## 5. Conclusions

The analysis of the data on the sample of Polish largest privatised companies has confirmed most of the hypotheses which had been formulated at the beginning of the paper,

Privatisation of the largest enterprises seems to introduce deep changes to their corporate governance structures, as opposed to shallow, formal changes in various corporate governance elements in a large part of small- and medium-sized privatised companies. At the same time, the impact of privatisation on corporate governance is not the same in the whole sample and depends on which group of shareholders is controlling the firm. Those groups affect not only corporate governance structures, but also very clearly exert influence on companies' performance.

There are four such ownership groups:

- foreign investors;
- domestic institutional shareholders;
- domestic private individuals not working in the companies;
- insiders.

Another important observation about ownership structure is that it is highly concentrated (and the concentration level is still growing) and that insiders' participation is very limited, unlike in privatised SMEs and contrary to some pro-insider provisions of Polish privatisation law. In the companies with foreign investors as a largest shareholder, the concentration level is highest. The lowest ownership concentration can be seen in insider-dominated firms.

*Table 29*

Performance of the companies in 1998-2000 in the companies where the State was a strategic investor on 1 January 1998 (thousand zlotys, unweighted average)

The largest shareholder category on 1 January 1998	1998	1999	2000
Total revenues			
1. The State is a strategic investor	95677,1	101976,0	97848,4
2. Other companies	238867,3	255781,4	315866,5
Gross profit			
1. The State is a strategic investor	-694,3	-980,5	-5499,3
2. Other companies	9713,6	9423,3	6229,7
Net profit			
1. The State is a strategic investor	-1958,9	-1800,2	-6020,7
2. Other companies	5902,4	3747,6	2255,7
Exports			
1. The State is a strategic investor	14109,0	14166,4	14792,8
2. Other companies	33769,0	38898,3	55113,7
Investment			
1. The State is a strategic investor	14515,1	5889,6	2430,7
2. Other companies	25747,8	18447,7	11061,4
Research and development expenditures			
1. The State is a strategic investor	345,7	395,9	288,8
2. Other companies	1027,2	1560,7	5754,6

Total assets			
1. The State is a strategic investor	82735,3	82918,8	82408,8
2. Other companies	160501,6	182006,8	201973,2
Total equity			
1. The State is a strategic investor	52070,7	49835,4	41302,4
2. Other companies	76070,8	83037,0	77646,0
Total dividends			
1. The State is a strategic investor	488,9	450,7	199,1
2. Other companies	370,4	787,1	624,4
Total wage fund			
1. The State is a strategic investor	23564,7	25995,4	31554,1
2. Other companies	45834,3	46016,0	53873,3
Employment (persons)			
1. The State is a strategic investor	1000,1	866,9	719,4
2. Other companies	1161,0	1207,6	1009,9

Source: own calculations.

The role of banks in privatisation of the largest Polish industrial companies seems to be very modest, especially in the field of acquiring state property by the banks. Banks see the companies mostly as actual and potential debtors rather than a source of property. Nevertheless, banks have important channels of monitoring the situation in most enterprises, so there is a potential for the growth of the banks' influence on companies' management.

Companies with highest levels of ownership concentration, especially dominated by foreign investors, have more coherent corporate governance structures, than in other companies, with strong control over the management and adroit incorporation of stakeholders in corporate governance bodies. In the companies with lowest levels of ownership concentration, the shareholders' majority is often rather formal and does not ensure a real control over the company.

At the same time, no evidence was found that the level of ownership concentration directly affects companies' performance. The concentration indicator proves to be of secondary importance, conversely the type of dominating owner shows a much stronger correlation with performance of the firms.

Companies, where the largest owner is a foreign investor, show the best performance in the sample, as well as more favourable dynamics of most of the companies' figures. The second place belongs to insider-dominated companies, which perform fairly well. The performance of another two groups is deteriorating, first of all in the companies which belong to domestic institutional investors. The analysis also revealed, that the presence of the State as an owner is accompanied by rather unfavourable performance of the companies. However, at the present stage of the research we do not know whether the State causes bad performance in these companies, or if the State is simply unable to sell shares in unprofitable firms.

There is no sufficient proof that the type of dominating owner is the sole or the most important factor which affects the performance of the companies under review. In many cases, ownership structure could have an endogenous character. We do not have information about the condition of analysed enterprises before privatisation, but analysis of available statistical data shows that a type of buyer of state property to a great extent is determined by companies' characteristics. However, there is evidence, than some types of ownership structures can have an exogenous character, first of all ownership concentrated in the hands of foreign investors.

In the next stage of the research, an attempt should be made to estimate an impact of changes in corporate governance structures (first of all in ownership structure) on companies' performance. This would not be an easy task because of the short time series

and because of stability of corporate governance structures in most of the companies in the sample.

At the present stage of the research, an impact of companies' performance on changes in corporate governance was not analysed. Based on previous studies (mainly in privatised SMEs), a hypothesis could be formulated that one of the main incentives for changes in corporate governance structures is poor performance of a company, which does not satisfy the main groups of owners and stakeholders. This hypothesis should be verified in the course of further analysis.

No clear evidence was found that changes in corporate governance are handicapped by old authority and influence structures which have survived from the state-owned past of the companies under review (as it can be seen in a large number of privatised SMEs in Poland). In most of the analysed firms processes of post-communist corporate governance transformation seem to be already completed.

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