

The models of business organization in the light of the privatization process on the example of Polish electricity sector

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Abstract. The author presented the main problems of organizing Polish energy companies in recent decades. The changes that have occurred in them did not have a character of a model. Implemented changes were varied and gave the same variety of effects. The author also drew attention to the large problem of the reorganization of Polish mines in the energy sector.

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INTRODUCTION

Changes in the global economy in recent decades can be considered a factor in changing the perception of the role of a company in today's economy. This is among other things due to the growing role of financial markets, the concentration of capital and more and more intense processes of relocation and migration of companies. All of this is focused around overused recently, both in theory and practice, concept of globalization. According to the author, the mentioned changes of economic phenomena are largely relatively convenient argument for those responsible for the state economy to justify many of the disadvantages of a social nature and growing unemployment in some parts of the world. In the first half of this decade, according to the author one could see the intensification of discussions on the optimal business models. It seems that they initiated, once again in the history of the world economy, the trend of seeking "better" economic models. More and more scientific discussions occur in the context of evaluation and often neo-liberal depreciation of the economic systems. These discussions have been intensified among others by the recent publication of Thomas Piketty (Piketty, 2014) in the United States and France, who strongly undermined the effectiveness of neoliberalism¹. Other factors also include the global expansion of the Chinese economy, which can be considered a good example of an unusual mixed model - a centrally planned economy according to the principles of economic neoliberalism. Consequently, the analysis of economic systems leads to the need to reply the next question connected to the issue of how far state capital is to be engaged in the companies of the country. Poland in this regard since the transition 25 years ago conducted fairly liberal policy. Therefore, relatively small number of sectors remained which are not under the control of the state. A very

¹ In Polish academic literature in recent years it is worth noting publications of prof. Elżbieta Mączyńska on liberal economies.

interesting example for a state-company relation in the context of privatization and restructuring processes are the entities of the electricity sector. The aim of the article is to present and assess in an orderly manner the exceptionally dynamic processes of reorganization and processes of changing of ownership of the power sector entities. Analysis of highly diverse and not always leading to the desired effects of reorganization models is intended to be a contribution to discussions concerning the relevance of elimination of the state capital of Polish enterprises as well as the intensity of privatization processes.

1. MARKET AND FORMAL AND LEGAL INDICATIONS FOR REORGANIZATION OF THE POWER SECTOR ENTITIES.

Considering the public offering of shares on the stock exchange in Warsaw in the process of companies' development and taking into consideration the implementation of the reorganization of a large range and intensity, it may be assumed that revolutionary changes occur (Białowąż, 2007, p. 135). To illustrate the intensity of these processes the example of sub-distribution is worth mentioning. In 2003, within its framework, thirty-three electricity distribution companies functioned, corresponding the most former provinces before the administrative reform. The processes of electricity trading, energy sales and customer service were located, among others, in these companies. A few years later, as a result of processes of capital consolidation and significant restructuring, only four large energy production groups (in the form of holding companies) were functioning, consisting, among others, from earlier 33 independent companies. It is worth noting that within the holding structures there are now the following sectors: sales processes, trading electricity and customer service, designated as separate companies. According to the author, the greatest influence on the current shape of the energy sector in Poland has come from political ownership decisions that started in the nineties. They concerned the privatization of selected power plants and then after 2000 decisions within the consolidation of entities².

In 2003, the Polish government presented a new concept and a timetable for further changes of the power sector entities, sanctioning the consolidation of distributors, but also significantly different from the existing activities of other entities. The new program, formally called "*The implementation of the ownership policy of the Minister of the Treasury in the energy sector*", was adopted by the Council of Ministers on 28 January 2003. It was based on the assumption that privatization processes would be preceded by the processes of consolidation of entities in addition to vertical consolidation. Therefore, the merger was supposed to concern energy producing entities and distribution companies. The program was based on the assumption that the separate companies are too small to be able to compete on an increasingly competitive market. It should be emphasized that to some extent the program duplicated the structure of the energy market characteristic for the eighties of XXth century, when there were 5 (con-

² In the nineties there were privatizations of Elektrociepłownia Zielona Góra, Elektrociepłownia Będzin, Elektrociepłownia Białystok, Elektrociepłownia Kraków, Zespół Elektrociepłowni Wrocławskich Kogeneracja, Elektrociepłownie Warszawskie, Elektrociepłownię Wyrbrzeże, Elektrownię Połaniec, Elektrownię Rybnik, Elektrownię Skawina oraz Zespół Elektrowni Pątnów – Adamów – Konin. After 2000, privatization of, among others, power plant of Łódź and Poznań took place. In both cases the purchaser was French professional investor- Dalkia. Within consolidation activities of generation sub-sector entities, not designed to become privatized, in 2000 Południowy Koncern Energetyczny (PKE) was established, composed of six plants: Jaworzno III, Łagisza, Siersza, Halemba, Łaziska, Błachownia and power plants Bielsko-Biała and Katowice. In 2004 BOT Group – Mining and Energy was created, by consolidation of Bełchatów, Opole and Turów plants and joining with the coal mine in Turów and Bełchatów. From the point of view of energy distribution sub-sector, 2002 is a significant year when a pilot project of combining of five independent energy companies (from 33 independent companies- distribution companies, mentioned in Introduction), which finally created ENEA SA company. They involved the following companies: Zielonogórskie Zakłady Energetyczne SA, Energetyka Poznańska SA, Energetyka Szczecińska SA, Zakład Energetyczny Gorzów SA and Zakład Energetyczny Bydgoszcz SA. The following process of consolidation of energy distributors led to the creation of next three distribution concerns: EnergiaPro, Koncern Energetyczny SA (Wrocław), Enion SA (Kraków), Energa SA (Gdańsk).

solidated) energy circles in Poland, possessing the status of a state multi-plant enterprises. Each district had from a few to several manufacturing or distribution plants as well as the ones performing the functions of technical support. In accordance with the approved program of 2003, completion of the reorganization processes in the sector was planned until 2006 and it must be admitted that the works were completed, at least from a formal point of view, for the most part as planned (Pach-Gurgul, 2012, p. 203-213). In 2006-2008, the next part of the program of energy sector reorganization was implemented. Its aim was to build a competitive electricity market by yet another creation of even bigger entities as a result of next consolidation processes. These actions resulted in the creation of entities shown in Figure 1 in the form of holding structures.

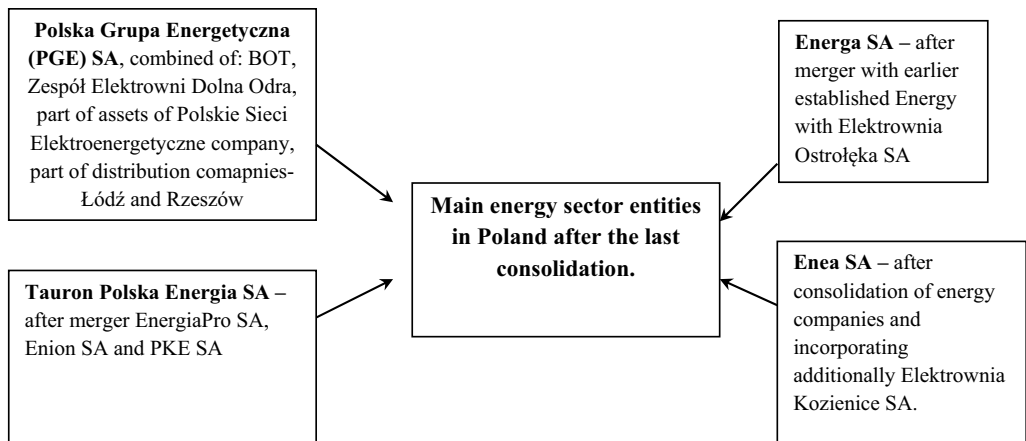


Fig. 1. Main energy sector entities in Poland after the last consolidation process

Source: own work.

It was only after the establishment listed in Fig. 1 entities, the process of their privatization started through the issue of shares on the Warsaw Stock Exchange in 2009-2010³. According to the author, from the point of view of shaping the value of the companies these actions should be viewed positively, given the fact that the processes of assets concentration provides often to build the value.

3. IMPACT OF THE EUROPEAN UNION REGULATIONS ON THE ORGANIZATION OF ELECTRICITY SECTOR

Analyzing the last decades of the main processes of reorganization of entities in the energy sector it should be noted that some provisions of formal and legal documents mentioned above in the form of programs for energy sector were to some extent forced by European regulations concerning the associated country, which Poland used to be before 2004. The author had in mind here primarily the 2003/54/EC

³ One should notice that the Treasury sold majority ownership only in the case of Tauron Polska Energia SA (30,6% shares and the same value of votes during the General Meeting of Shareholders. In other holdings the Treasury has left its controlling stakes in the form of more than 51% of the shares, which results, in the case of Energia, in share of 64,08% of the votes at the General Meeting of Shareholders. In Tauron Polska Energia SA, the control of the Treasury is achieved by participation in KGHM SA, which directly holds 10.39% of shares in Tauron.

Directive of the European Parliament and the Council of 26 June 2003. Adaptation to the objectives of this directive assumed the separation of so-called 'distribution system operators' and the transmission system operator-in the case of the highest tensions, who in principle were not subject to the laws of the free market and were obliged to take into account merely assets enabling realization of distribution and transmission processes. The lack of detailed model assumptions within the changes necessary to be applied was the additional complication. The described above directive forced formal and legal separation the distribution from the electricity trading among others within the context of energy market which was supposed to open from 1 July 2007 for all clients (about 15 million of consumers). The process of liberalization of the energy market launched in 1998 starting from the clients of the highest energy consumption of above 5000 GWh – in 1998 there were 12 of them (Chochowski, Krawiec, 2008, p. 70-92).

4. EVALUATION OF THE RESTRUCTURING PROCESSES OF THE ENERGY COMPANIES AND THE MINING SECTOR CHANGE PROCESSES

Trying to assess the processes of changes of the sector one may get the impression that the changes over the last decades were characterized by large variability of visions of a certain level of inconsistency. While some changes to a large extent can be explained by "independent" processes such as integration with European structures and the need to adapt to not always precise EU regulations, it is difficult to find logic in privatization processes. It is worth noting that within similar or even the same periods the sales of companies were implemented - often without taking special actions to create their value while other companies of a similar nature were consolidated. Sales processes relate, for example, to a power plant in the area of Poznań, Łódź and Cracow, for which the significant industry investor in the form of Dalkia and EDF (Électricité de France) were found. Observing the development of these companies, ensuring their development after privatization must be emphasized certainly. But one cannot fail to note the development of consolidated energy groups, as well, which in 2010 entered the stock exchange and at the moment have a significant impact on the State budget – during one of the last years the net profit of only one of TAURON Polska Energia company amounted to about 1.3 billion PLN. Attention should also be paid to the fact that many of those entities were in bad financial condition before privatization - obtaining negative financial results. Most frequently, the results after privatization underwent radical improvement through the use of often simple reserves that were in the structures of the acquired entities. An example of a company that has significantly improved the financial condition is the power plant in Poznań, which a few years after the privatization increased its net income from the negative level to the level of several dozen million PLN. According to the author, it may be acknowledged as a confirmation of the thesis consistent with neoliberal world economies, which states that a state owner is usually less effective. However, a vital question emerges, whether it has to be like that, considering the development of financial markets, globalization processes and free movement of capital, including intellectual capital. Another good example of inconsistent activities of an owner in 2002 was the sale of the energy distribution company STOEN SA in Warsaw and two years earlier- sale of Górnośląski Zakład Energetyczny (GZE) SA in Gliwice. The companies are important because they operate in the main industrial district in Poland in the case of the GZE - approx. 7% market share and a special strategic area of Poland in the case of the STOEN - Warsaw with the significant approx. 5% on the market. What is interesting, 11 years later in 2011 GZE was, one may say "nationalized" by TAURON Polska Energia as a result of the sale agreement by the Swedish Vattenfall. Apart from the complicated integration process after the acquisition in order to be included in the structure of the Polish energy company, the analysis of the transaction value seems interesting. In 2000, the Treasury privatized the GZE SA company and its

value was determined to have reached about 0.7 billion PLN. In 2011, the Polish listed company bought the GZA SA for more than 4 billion PLN after 11 years of “regular operation” and collecting dividends by the Swedish Vattenfall, what is worth noting owned in 100% by the Swedish state. Reaffirming lack of vision and volatility of energy sector development policies of the last decades, the question arises why exactly only two privatizations of distribution companies happened. Interestingly, the privatization of the Warsaw STOEN Company has raised more controversy due to the very critical report of the Supreme Audit Office (NIK in Poland), which was released in February 2004⁴. In the report, the NIK did not directly question the purchase price of 85% of the shares (transaction value of approximately 1.5 billion PLN), but there were a number of critical comments regarding the increased risk of loss of control of power networks, preventing the replacement of the natural state monopoly from natural private monopoly, the start of the privatization process before consolidation of entities generating electricity and rearrangement of the energy market - in particular solutions of so-called long-term contracts, which - simply speaking - denotes accepting the inflated energy prices paid to generators in order to finance investment projects in generation capacities. It is also worth mentioning that during the privatization process STOEN received negative correction factors for its tariffs for the years 2004 and 2005 - the lowest among conferred by that time on energy plants, allowing for the increase of charges for transmission and distribution above the inflation rate. Parameter had an impact on the valuation of the company in subsequent periods. Not analyzing these processes in detail, the report of Supreme Audit Office is another example of the lack of so important, stable and coherent long-term vision for the energy sector. Trying to assess the current situation, one certainly should positively refer to the final consolidation of the power sector and the creation of four already described above energy groups. By publishing these groups in the form of a listing on the Warsaw Stock Exchange, the parts of management solutions common for countries with developed financial markets were implemented. The author intentionally used here the phrase “elements” because one should keep in mind still occurring considerable politicization of these companies, which, as can be seen from the above examples, does not lead to obtaining maximum efficiency in all areas. Same IPOs from the point of view of the achieved value also can not be assessed in terms of complete success. Clearly, however, if we compare the organization of the companies before the decade we will see that at the present time we have a strong organization, to a certain extent consolidated entities equipped with the latest tools dedicated to, among others, customer service and improving communication. Although these companies especially in the last decade were subjected to dynamic restructuring it is difficult to continue to compare them to similar companies in the European markets. At the moment, you are free to observe the following negative phenomena:

1. The resulting structures contain a lot of historical processes - often in the form of subsidiaries, which from the point of view of the fundamental processes such as manufacturing or distribution are irrelevant and must be eliminated. This applies to all kinds of social activities, hotel facilities, but also to some energy-related services.
2. Consolidation of similar entities resulted in obtaining duplicated functions.
3. There are various standards of processes in different areas of the same companies in the area, e.g. customer service, repairing breakdowns, etc.
4. Ownership decisions in recent years have resulted in start-up investments in generation capacity, which in turn result in a dangerously high debts energy groups with negative electricity prices, which now makes production unprofitable.
5. There is still a lack of clear vision for the development of companies, which can be seen by analyzing the plans of other processes of combining energy groups.

⁴ Information about the results of the STOEN SA privatization control – no. KGP/41146/02, February 2004.

It is worth noting that similar phenomena regarding the lack of clear vision of the organization have been present for years in the mining sector. Additionally, in the case of workers in mines there are specific concerns of the owner regarding radical changes that are necessary to implement⁵. While in the case of energy companies in recent decades there have been more or less forced external regulations and market conditions of restructuring processes, in the case of the mines most of the ruling elites treated mining as an inviolable area. When energy companies announced so-called voluntary leave programs (PDO) in order to increase profitability in preparation for action on more and more increasingly competitive market and intensified restructuring processes, in the mining area there was a defensive attitude against costly changes significantly affecting social packages to maximize the extraction costs (staff costs account for about 50% of all expenditures of mining companies). Anyway, this is still a current problem of Polish mining companies - as an example one may evoke very large financial burden even for former employees. Until 2013, only one company – Kompania Węglowa (58% market share) had costs associated with carbon allowance for pensioners amounting to more than 0.25 billion, which covered over 160 thousand of former employees. The total cost for allowances to coal equivalent is estimated to be in all companies at approx. 0.35 billion PLN. Given the absence of reorganization measures, one might imagine that one of the key factors for the stabilization of functioning of entities of the mining sector is the price of the raw material on the market.

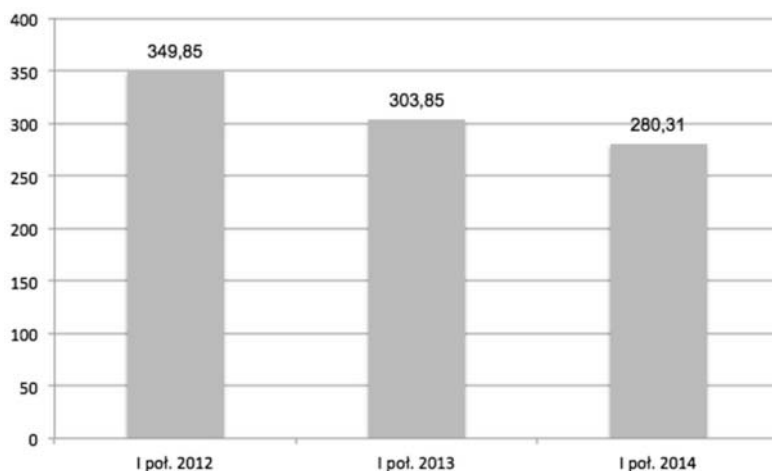


Fig. 2. The price of coal in PLN per tonne in the first half of the year in 2012-2014

Source: Ministry of Economy.

The market in recent years, however, ceased to be gracious and the price of raw materials has strongly decreased, which is revealed on the graph. The consequence of this, together with the aforementioned

⁵ On the one hand this is understandable, since the post-war period the miners are a specific professional group distinguishes the dangerous work, great dedication, having also if their dissatisfaction impact on the political records of governments. However, the wave of this specific and in most cases a reasonable treatment of the miners, created as non-market and unjustified privileges for employees not directly related to coal mining. The analysis of capital structures of some mining companies reminds 70s and includes, for example, the companies printing magazines to promote mining and entities providing food within own chains of stores. Any attempt to restructure processes, which from the perspective of the current economic situation of mining companies and revised standards in shaping the organizational structures of enterprises, encounters large public objections.

factors, was a drastic deterioration in the financial situation of mining companies, which led Kompania Węglowa, among other companies, to the brink of bankruptcy. We could also observe the tremendous escalation of social unrest at the beginning of the current year. Earlier, in the first mid-2014 key mining companies Kompania Węglowa and Jastrzębska Spółka Węglowa (JSW) recorded a total of around 700 million PLN net loss, Katowicki Holding Węglowy - more than 100 million PLN loss and now belonging wholly to TAURON Company former Południowy Koncern Węglowy- nearly 40 million PLN loss. Coal mining in Poland in recent years has reduced heavily, as well as the level of export and import of raw materials has, as is shown on the charts.

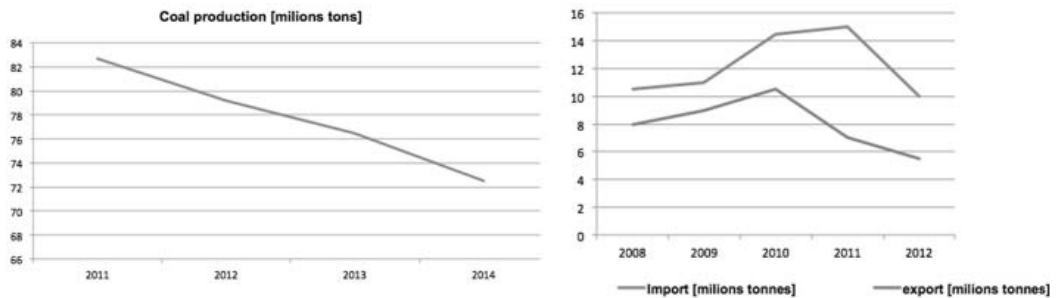


Fig. 3. Coal mining and the level of import and export.

Source: own elaboration based on *Dziennik Rzeczpospolita* magazine, dated on March 10, 2015.

At the moment of the appearance of a conflict in the companies Polish government was “against the wall” and the only way to avoid further escalation of the conflict is to raise funds for the mine. Such conclusions can be drawn from the current Standard & Poor’s analysis of the situation of the mining sector. One can not also expect an increase in coal prices on world markets, which for the maintenance of the status quo of the mine will result in expenditures at the level of even a few billion of PLN in the coming years. Only at the end of last year, the state-owned *Spółka Restrukturyzacji Kopalni* was complemented by 0.28 billion PLN in order to be able to meet its current commitments and the slow extinction of Kazimierz-Juliusz mine in Sosnowiec.

5. MODELS OF BUSINESS REORGANIZATION – SYNTHETIC REMARKS

Analyzing the organizational transformations of energy companies in recent decades, one can define the general models of these transformations taking into account two criteria: the degree of privatization and the length of the value chain. Before describes the solutions for Polish companies it is worth noting how the capital structure of Europe’s largest energy companies. This is shown in Figure 4.

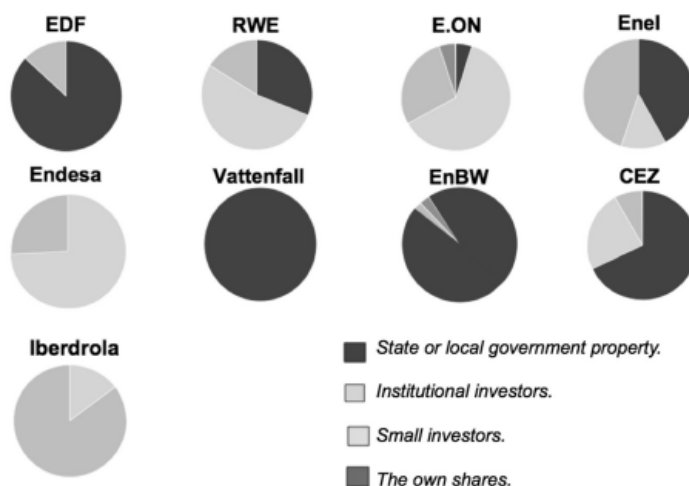


Fig. 4. Shareholders of largest energy companies in the EU

Source: own work.

One should note that more than a half of European energy companies has a predominant share of the state capital. A very similar approach was applied in the case of Polish energy companies. Polish companies after the consolidation process have been introduced on the stock exchange in Warsaw. The percentage share of Treasury is between 30 to less than 70% of the shares subject to the Treasury, despite possessing even less than half of the shares, for example in the case of TAURON Polish Energy has control over the company. Considering the high social impact of the energy companies in the country, it seems to be a good decision from the point of view of social activities. However, it is not necessarily good in terms of business efficiency and the rules of the stock market because of the politicization of the associated enterprises (cf. Bałtowski M., Kozarzewski P., 2014, p. 357 and further). These actions appear to be analogous to the decision undertaken by other global companies in this sector.

Another important element that affects the organizational model of companies is the extent of the value chain. In the case of the energy sector we can talk about full value chain if it includes such processes as mining, generation, transmission, energy trading, and its distribution. In the case of European energy companies, the processes of gas supply should be added, which is a very common model. In the case of Polish energy companies, one can say that the model of changes relied on integration, disintegration – independent action and reintegration, involving diversified value chain. The examples are energy areas built on the basis of power plants in the eighties of the last century, which were subject to the separated Ministry of Energy. At that time there were five large energy areas, which included up to a dozen of manufacturing and distribution facilities and with the implementation of support in the form, among others, of repair services. In the late nineties, the Ministry of Energy was liquidated, which also resulted in liquidation of energy areas, decentralization of entities and consequently- highly fragmented market, quite the opposite to the trend in Western European countries during the same period. A significant change in the concept of organization of entities took place in 2003, when the first energy group, for the time being horizontally integrated, based on the energy area of Szczecin, Bydgoszcz, Gorzów, Zielona Góra and Poznan. In the following years next groups of horizontally integrated entities were formed and in subsequent years the entities with the holding structure were created already on this basis, most of them covering the full range of the value chain from mining, through generation, distribution to the trading and sales of energy- they have already been specified in section 2 of article .

6 DEVELOPMENT FORECASTS FOR ENTITIES

Considering the fact that 2015 is an election year, one can expect a very conservative action by the Treasury. The companies of energy sector and mining area are in an interesting situation. On the one hand, four described energy holding companies are partly integrated vertically, which means they possess mining companies and are listed on a stock exchange and they are under “quasi” market surveillance. The term quasi stems from the fact that the Treasury getting rid of the packages in these companies has left its actual control over them, which is also unfortunately associated with a considerable politicization of these companies. At present, they are stable and smooth even though more and more indebted in connection with the realized investments in generation sources. Therefore, the assets of the four major holding companies may soon be burdened with unprofitable and not restructured mining companies. As a result, the social peace in an election year will be obtained, which is now the most important for the Government. Although there are some restructuring activities undertaken, they are more of a ‘cosmetic’ nature, which is evidenced by the very slow decline in the number of employees - for example can it be given that employment in coal mines was in 2011 about 114 thousand people and in the last year only about 10 thousand fewer. It is not the message of the article to promote the restructuring of employment – however one should take into consideration the very high share in total employment of non-miners, which with the increase of the difference between the price of coal and the costs of its extraction (in 2014 the average cost of production was higher by about 29 PLN on each tone of carbon price) tends to take radical decisions to protect assets that are likely to be permanently profitable. Besides, production cost increases due to the decrease in the level of production (the share of fixed costs). The combination of the mining sector with the energy holding has been discussed in recent months louder. However, it is important to realize how illogical consequences of this process will involve. Companies listed on a stock exchange, so the companies assessed in a better or worse way by analysts, will take an “independent” and “economically justifiable” decision to buy mining assets, causing impaired, if not pathological situation of confusion quasi-market assets with those non-market - artificially subsidized. There is also already realized for part of the mines concept of bringing them to the company’s restructuring mines, but the effects of the reorganization process will be noticed in a few years, which is too distant date considering about 2 billion PLN losses of the entire mining sector.

CONCLUSIONS

To summarize, it is worth paying attention to one element that has been missing for many decades both in the case of electricity and mining companies, which is an unambiguous and consistently pursued coherent vision of development. This would help to avoid many of the problems of a financial and social nature.

The main conclusions from the analysis presented above situation of the energy sector in Poland can be presented in the following points:

- a) Poland over the past decades did not have a single strategy for energy sector development.
- b) Restructuring companies does not lead to the implementation of a uniform business model of energy companies.
- c) There was a large variability model of organizations, depending on the political situation.
- d) Unify models in organizations largely achieved due to the need to implement the Directive of the European Union in the field of energy distribution.

- e) The processes of privatization of energy companies (mentioned as GZE and STOEN) were not justified and inefficient.
- f) There are no uniform development strategy and organization models. It led to dramatic financial situation of mining companies and therefore can lead to dramatic effect in parts of Polish society.

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