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Center for Social and Economic Research

Barbara Błaszczyk, Michał Górzyński
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Secondary Privatization in Poland (Part II): Evolution of Ownership Structure and Performance in National Investment Funds and their Portfolio Companies

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Contents

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Barbara Błaszczyk is a co-founder and the President of the Board of the CASE Foundation. In 1975 she received her PhD at the Institute of Organisation and Management of the Polish Academy of Sciences (PAN). She was qualified as an assistant professor in 1989 at the Department of Sociology and Economy of Łódź University. In 1996 she received the title of Professor.

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Preface

This volume contains the output of country research undertaken in Poland in 2000–2001 by Barbara Błaszczyk, Michał Górzyński, Tytus Kamiński and Bartłomiej Paczóski under the international comparative project "Secondary Privatization: the Evolution of Ownership Structures of Privatized Enterprises". The project was supported by the European Union's Phare ACE* Programme 1997 (project P97-8201 R) and was coordinated by Barbara Błaszczyk of the Center for Social and Economic Research (CASE) in Warsaw, Poland.

The support of the ACE Programme made it possible to organize the cooperation of an international group of scholars (from the Czech Republic, France, Poland, Slovenia and the U.K.). The entire project was devoted to the investigation of secondary ownership changes in enterprises privatized in special privatization schemes (i.e., mass privatization schemes and MEBOs**) in three Central European countries – the Czech Republic, Poland and Slovenia. Through a combination of different research methods, such as secondary analysis of previous research, analysis of legal and other regulatory instruments, original field research, statistical data base research and econometric analysis of individual enterprise data, the project aimed to investigate the scope, pace and trends in secondary ownership changes, the factors and barriers affecting them and the degree of ownership concentration resulting from them.

The authors of this report look at ownership changes in the companies owned by the Polish National Investment Funds in the 1995–2000 period. They analyze the numbers of companies in the NIFs' portfolios were sold to what types of investors (i.e., domestic corporate, domestic individual, employee, foreign, other NIFs, public trading) in which years. A great deal of attention is also paid to the issue of changes in the ownership of the funds themselves as well as the issues of corporate governance in the funds (management costs, strategies, etc.) Finally, the economic performance of NIF portfolio companies is compared with other groups of companies in Polish economy, and then the group of NIF companies is broken down with respect to type of owner that acquired (or kept) them, and these groups are compared with each other.

We hope that the results of this research will be of great interest for everyone interested in the little-researched question of what has happened to companies after privatization in transition countries.

Barbara Błaszczyk

* "Action for Cooperation in the Field of Economics".
** Management-Employee Buyouts.

Part I.
1. Introduction

The April 1993 Act on National Investment Funds (NIF) formed the basis for the Polish mass privatization program, allowing every adult Polish citizen to acquire a portion of national assets for a nominal charge. The NIF program was supposed to accelerate the pace of privatization, while at the same time providing for the restructuring of enterprises prior to their privatization, facilitated by the expertise of the professional management companies employed by the NIFs. The National Investment Funds were special institutions created for this program in the legal form of joint stock companies, but subject to strong government influence for at least the first three years of the program. At the beginning of the program, majority stakes in the 512 enterprises participating in the program were turned over to the 15 National Investment Funds, whose tasks included restructuring and privatizing those companies. The management companies, which were to manage the funds on a contractual basis, were responsible for improving the financial results of companies held by the funds and raising the value of the funds' assets. They could achieve this by directly or indirectly participating in the companies' restructuring or by supporting their sale to strategic investors; they were also allowed to liquidate the companies and to make portfolio investments. In effect, profound evolution of the ownership structure of both the NIF portfolio companies and the funds was expected.

Our paper presents the directions of the secondary ownership changes of the Polish National Investment Funds and their portfolio companies, trying to explain the factors influencing this evolution and investigating its results. The second and third sections illustrate the initial ownership structure and its evolution at the level of the funds. Here, we look at the level of ownership concentration and reasons for consolidation. The main investors in the funds are identified, and their motives are examined. We then move onto a discussion of management of the funds, in which we present the difficulties in corporate governance of the funds and of the portfolio companies, in connection with the differing interests of the various program participants. We also discuss the management costs of the funds. In the fifth section, we analyze NIF strategies, focusing specially on their privatization strategies, and identify the new owners of NIF portfolio companies who emerged in the secondary privatization process.

The next two sections present the performance of NIF companies in comparison with other groups of Polish enterprises and investigate the economic situation of these firms (grouped according to the type of owner). This analysis was conducted on the basis of an original database, gathered from different sources. Using the incomplete financial and qualitative data of the NIF portfolio companies collected by the Ministry of State Treasury (for 1995–1997) as a starting point, the data base was supplemented with data published by the Warsaw Stock Exchange, the over-the-counter market CETO (Centralna Tablica Ofert), and other stock market publications. Finally, a large part of the data were gathered from *Monitor Polski B*, in which all joint stock companies are obliged to publish their yearly financial results. In effect, a database reporting on the ownership structure and financial results of 429 NIF portfolio companies (out of a total of 512) for the years 1995–2000 was completed, allowing for a broad microeconomic analysis.

2. The Institutional and Legal Framework of the NIF Program and the Initial Ownership Structure of the National Investment Funds

The National Investment Fund Program (NIF Program) differs from the mass privatization programs adopted in other Central and Eastern European countries, which focused on the rapid transfer of companies to private hands but without providing any specific mechanism for their restructuring. By way of contrast, the NIF Program was designed not only as a means of enabling the transfer of a significant part of the state sector's assets to Polish citizens, but also as a mechanism for actively restructuring the companies participating in mass privatization.

The detailed conceptual and design work on the NIF Program started in 1991. The Law on National Investment Funds and Their Privatization (the NIF Act), which provided the necessary legal framework, was adopted by the Parliament on the 30th of April, 1993[1]. In December 1994 the Minister of Ownership Transformation established 15 National Investment Funds in the form of joint stock companies. The State contributed to the funds the shares of the state companies which had agreed to participate into the Program. In the end there were 512 of them.

The State Treasury contributed to the established funds 60% of the shares of each company. However, 27% of the shares of each company were contributed in equal parts to all funds, expect for one, which received a package of 33% of the shares of a given company. This allocation scheme was supposed to create an effective corporate governance mechanism by ensuring the dominant position of one "lead" fund in each company. As a result, each NIF held 34–35 lead shareholding positions (33%) and almost 480 minority holdings in other companies included in the program. Pursuant to the NIF Law, up to 15% of the shares of each company were distributed, free of charge, to the employees, and in certain cases other entitled individuals (farmers and fishermen) who had certain contractual supplier relationships with the companies concerned received as much as a further 15%. The remaining shares in each company (25%) were retained by the State. The initial shareholding structure of the companies participating in the program immediately following contribution of their shares to the National Investment Funds is presented in a table 2.1.

At that stage (1995–1996), the value of the funds equaled the value of the contributed shares, as the State Treasury received the shares of the funds in return for the contributed company shares. The State Treasury become 100% owner of each fund and nominated the members of the supervisory boards of the funds. According to the Law on NIFs, the supervisory boards were responsible for appointing, signing and supervising the management contracts with the management firms. The management firms were selected by a public tender among Polish and foreign reputable commercial banks, consulting firms, foreign fund management firms and investment banks. They have been responsible for improving the management and strengthening the market position of the NIFs through restructuring, providing access to capital and introducing new technologies to the companies in the NIFs' portfolios.

The law did not establish the division of labor and responsibilities between the management boards of the funds and their management firms. This was to be resolved later, in the charters of each NIF individually (as well as in the appropriate contracts). In most cases, these two functions were merged, to be carried out by a single entity.

Table 2.1. The initial shareholding structure of the NIF portfolio companies

	%
Lead National Investment Funds	33
Other National Investment Funds	27
Employees	15
State Treasury	25
TOTAL	100

[1] Dziennik Ustaw, No. 44, item 202, dated May 31, 1993.

Pursuant to the provisions of the NIF Law the fee for services of the management firms consists of three parts: an annual fixed cash fee for management services[2], an annual performance fee for financial results (equal to 1% of the value of NIF shares for each year of management services), and a final performance fee for financial results (equal to 0.5% of the value of NIF shares for each year of management services).

Finally 14 of the NIFs' supervisory boards signed contracts with management firms. One NIF did not sign a contract and instead made other arrangements for the management of its portfolio, directly employing Polish specialists in finance and law. On July 1995 the Minister of Ownership Transformation, acting as the main shareholder of the NIFs, accepted the 10-year management Contracts negotiated by the supervisory boards.

The second phase of the NIF Program consisted of two stages: the distribution of the certificates of ownership (CO) and the initiation of trading of the NIFs' shares on the Warsaw Stock Exchange. The process of distributing certificates of ownership started in November 1995. The State Treasury issued the certificate in physical form, to the bearer. The right to receive a certificate was not transferable and was not inheritable. However, the certificate itself was fully transferable and inheritable, allowing for unrestricted secondary market trading. The certificate entitled the holder to exchange it for an equal number of shares in each NIF[3]. The exchange process was carried out by licensed brokerage houses, which deposited the certificates at the National Depository of Securities. The Depository exchanged the certificates for NIF shares. Once the exchange was effected, all rights related to the certificate expired and the holder became a shareholder of the National Investment Funds. The exchange process started in May 1997.

There were 27.8 million Polish citizens entitled to receive the certificates of ownership. On the day when the distribution process started, the over-the-counter market started to operate. In July 1996 certificates started being listed on the Warsaw Stock Exchange. The distribution process finished in November 1996. Over 95% of the entitled citizens received certificates.

In April 1997 the State Security and Exchange Commission gave permission for the shares of the 15 National Investment Funds to be listed on the Warsaw Stock Exchange. The quotation of the NIFs started in June 1997. The validity of the certificates expired on 31 December, 1998[4]. The certificates covered 85% of the shares of the NIFs. 15% of shares were reserved for the performance-related element of the fund Manager's remuneration.

As illustrated above, in its logistical aspect, the distributional part of the mass privatization program in Poland functioned very well: all tasks were fulfilled, and all deadlines were met. However, the realization of the substantive end-goals of the program was much more difficult.

[2] The annual management fees were agreed separately for each management firm. In some cases the fee differed in order to reflect differences in the number of lead shareholdings. The fees for the services of the management firms in the first year varied from 2,5 to 3 million USD.

[3] One certificate was exchangeable for a single share in each of the National Investment Funds.

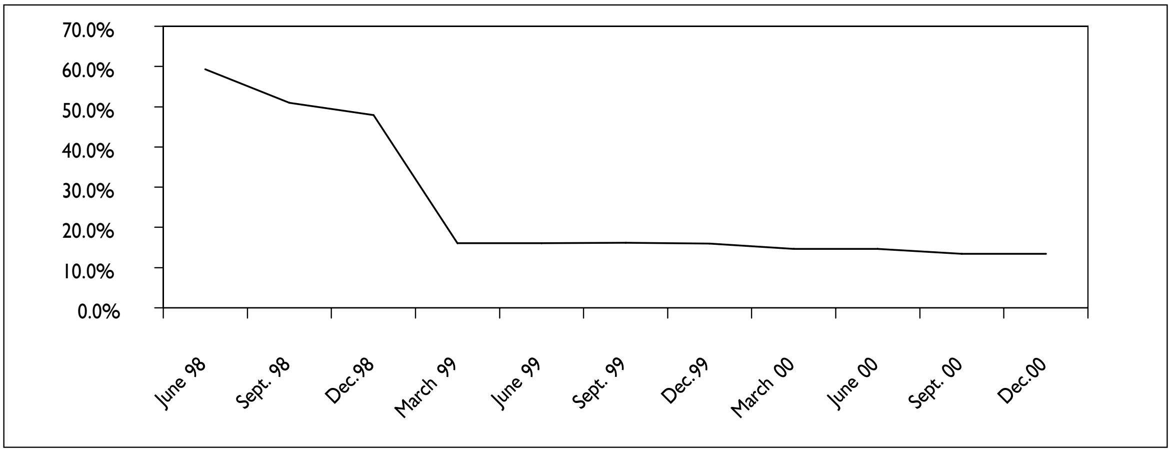
[4] This meant that after that day, the certificates were no longer exchangeable for NIF shares.

3. The Changes of Ownership Structure of the NIFs and the Motives for Concentration

3.1. The Ownership Concentration Process in the National Investment Funds

For almost four years after launching of the NIF Program[5] the ownership structure of the National Investment Funds was mainly determined by the institutional and legal framework established by the NIF Law. From the beginning, the State Treasury had been the main shareholder of the NIFs and delegated the members of the supervisory boards. At that time, the state fully controlled the NIFs. Its ownership share started to decrease when the process of exchanging COs for NIF shares began[6]. The share of the State Treasury decreased significantly at the end of 1998, when the validity of certificates expired. At this point private institutions started to acquire NIF shares more aggressively and place their representatives on the NIFs' supervisory boards. As of the beginning of 1999 the state continued to hold only those shares which represented certificates not redeemed by the citizens and shares reserved for remuneration of the management firms[7]. Since that time the ownership share of the state in the NIFs has been decreasing and the Minister of the State Treasury has started to play a passive role in funds, acting rather as a regulatory and administrative body than the institutional shareholder of the funds[8].

Figure 3.1. The ownership share of the State Trasury in NIFs



Source: The Polish Security and Exchange Commission (KPWiG), Polish Press Agency (PAP), Notoria Service and own calculation.

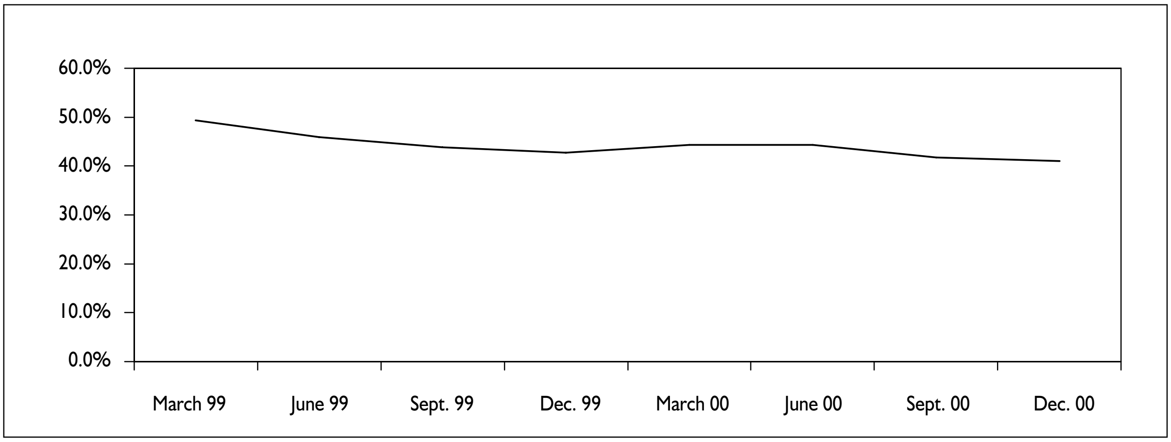
[5] From March 1995, when the National Investment Funds were registered, to the end of 1998, when the distribution process of certificates of ownership finished and the privatization of the NIFs began in earnest.

[6] Until the certificates of ownership were exchanged by the owners for shares of the NIFs, the State Treasury was entitled to exercise ownership rights on behalf of the CO holders.

[7] When the exchange process finished, almost 16% of the shares of NIFs remained in the State Treasury's hands (15% were reserved for remuneration of the management firms, and approximately 1% had not been redeemed by Polish citizens).

[8] According to an "unwritten agreement" the representatives of the Ministry of the State Treasury on the supervisory boards of the portfolio companies and NIFs voted like the representatives of the leading shareholders. Only once did the state play a more active role in the NIFs. In 2000 it tried with the support of PZU S.A., the largest state insurance company, to regain control over three funds managed by the Everest Capital Group. It succeeded in taking over two of these funds. The important message is that the Ministry of the State Treasury used market rather than administrative means to accomplish its ends.

Figure 3.2. The ownership share of small investors in NIFs



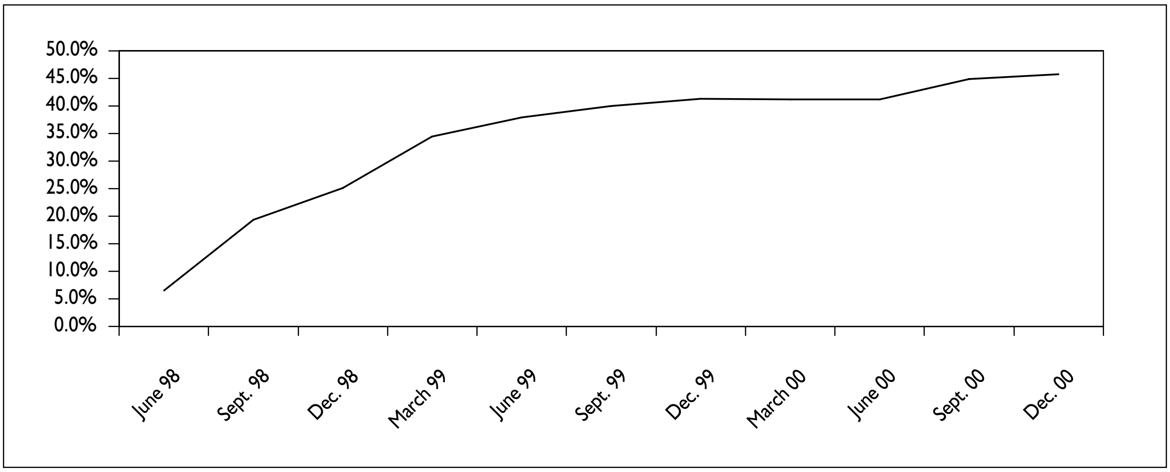
Source: The Polish Security and Exchange Commission (KPWiG), Polish Press Agency (PAP), Notoria Service and own calculation.

At the beginning of 2001 the state's share dropped to 13.4% (see figure 3.1).

Analyzing the evolution of the ownership structure of the NIFs we can observe a decreasing share of small, individual investors. We define as small investors those investors who own less than 5% of the shares in a single NIF. According to the Law, such investors are not registered by the Polish Security and Exchange Commission (KPWiG[9]). Just after the completion of the exchange process[10] small institutional and individual investors owned almost 50% of the shares of the NIFs. By the beginning of 2001 the share of small and individual investors had dropped to 41% (see figure 3.2). It should be remembered that according to the NIF Law around 85% of the shares of the funds were distributed to Polish citizens, which means that the share of small investors was halved.

While the share of the State Treasury and small investors in NIFs has been decreasing, the share of institutional and large investors has been rising (see figure 3.3). The share of institutional investors[11], starting at 0% in November 1995[12], jumped to 46% by the end of 2000.

Figure 3.3. The ownership share of large (institutional) investors in NIFs



Source: The Polish Security and Exchange Commission (KPWiG), Polish Press Agency (PAP), Notoria Service and own calculation.

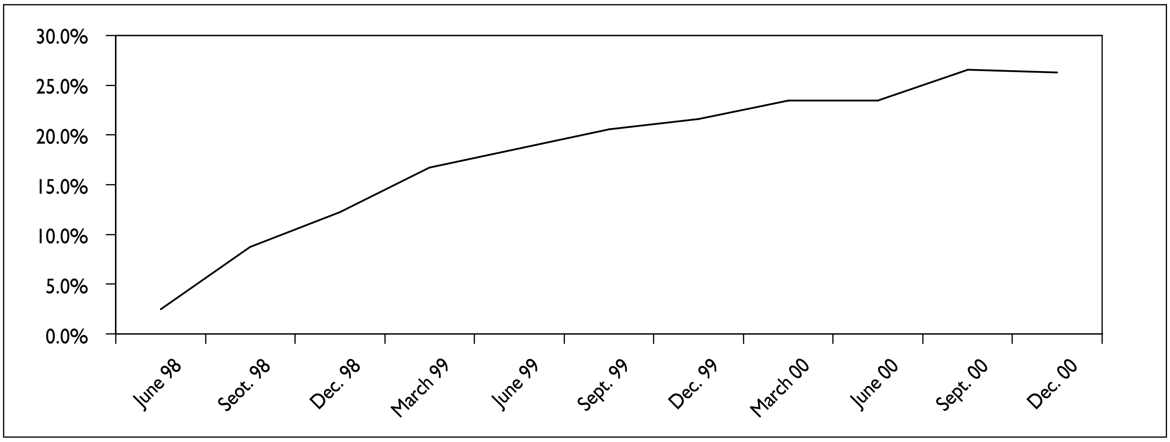
[9] The Polish acronym, standing for Komisja Papierów Wartościowych i Giełd.

[10] 31 December, 1998.

[11] In the estimation presented we excluded the State Treasury in order to clearly show the concentration process and the involvement of the institutional, private investors.

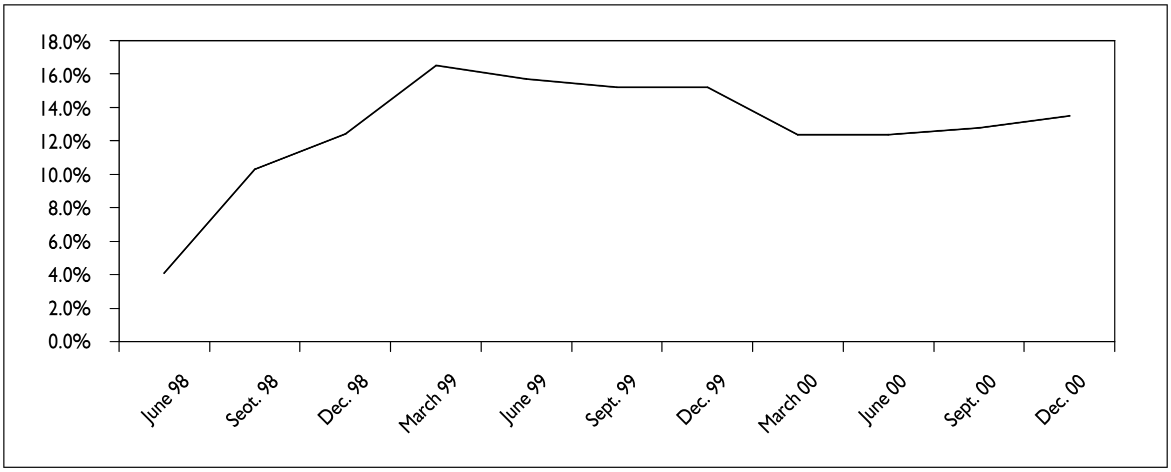
[12] In November the distribution of NIF shares started. As the certificates were fully transferable, institutional investors could now purchase them. From the beginning of the distribution process Polish banks purchased COs from individual investors.

Figure 3.4. The ownership share of large foreign investors in NIFs



Source: The Polish Security and Exchange Commission (KPWiG), Polish Press Agency (PAP), Notoria Service and own calculation.

Figure 3.5. The ownership share of large domestic investors in NIFs



Source: The Polish Security and Exchange Commission (KPWiG), Polish Press Agency (PAP), Notoria Service and own calculation.

Analyzing the shareholdings of large investors we have observed that foreign investors are the chief group responsible for the rapid increase in the involvement of large investors in the Program. In June 1998 foreign investors had only 2.5% of the shares of NIFs, but by January 2001 they had more than 26% of the shares, which constituted 57.5% of the total shareholdings of large investors (see figure 3.4). At the same time the shareholdings of Polish investors increased much less significantly (see figure 3.5)[13]. In June 1998 Polish investors held 4.1% of the NIF shares, and in January 2001 they held only 13.5%. The largest involvement of Polish investors in the NIFs was observed in the first two quarters of 1999, at which time that category of investors held 16.5% of all shares. Later their shareholdings started to decrease. Since September 2000, Polish investors have again started to increase their shareholdings.

Analyzing the shareholding of large investors, we also observe the increasing involvement of other NIFs. As of the end of 2000 almost 6% of NIF shares were owned by other NIFs. This cross-ownership mechanism also shows progressing concentration[14].

All the observed trends – the decreasing share of the State Treasury and small investors, the increasing share of institutional domestic and foreign investors and the growth

[13] Polish investors are defined here as economic units, in which domestic investors owned at least 51% of the share capital at the time when the privatization of the funds started (i.e., when the distribution of COs started).

[14] In fact the cross- ownership mechanism is a very effective and cheap tool of taking control over the funds. An investor controlling one fund uses the financial sources of that fund to take control over another fund. As a result, investing in one fund, it controls two funds. This obviously speeds up the concentration process. That mechanism will be described later in this paper.

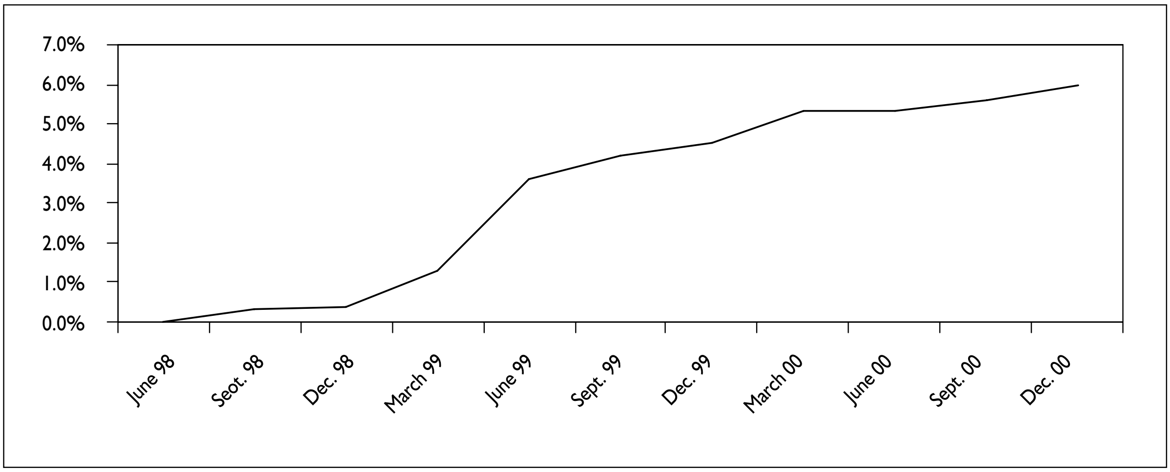
of cross-ownership relations among the NIFs – reflect progressing ownership concentration. This observation is supported by the data presented in tables 1A and 2A (in the appendix). Table 1A presents the concentration indexes C1 and C3[15] estimated for all NIFs together. Table 2A presents C1 and C3 indexes estimated for all 15 NIFs separately. Estimating the indexes in both cases we excluded the shareholdings of the State Treasury in order to present and analyze the real ownership concentration of the private investors.

Analyzing the evolution of C1 and C3 indexes for all NIFs and comparing them with the Czech and Slovenian examples[16], we can say that the process of ownership concentration in the NIFs is progressing at quite an impressive pace. Over a period of 2.5 years (from June 1998 to December 2000) the C1 index increased from 5.41% to almost 24%, and the C3 index increased from almost 7% to 42%. The fastest rate of ownership concentration was observed in 1999.

These observations are supported by the data presented in table 2A, where the evolution of C1 and C3 indexes for all NIFs are presented separately[17]. The C1 index in 1998 varied from around 5% (in NIF IV and V) to more than 20% (NIF III). However, in most funds the shares of the largest investor did not exceed 10%. Two years later the lowest value of C1 was almost 14.5%, and the highest one was almost 51%. In 8 funds (out of 14[18]) the C1 index exceeded 20%. If we analyze the C3 index in the same table the pace of the concentration process can be observed even more clearly. In 1998 the C3 index varied from around 15.5% to almost 40%. Only in two cases did the C3 index exceed the level of 30%, and in most cases it equaled around 20%. One year later C3 exceeded 40% in 6 funds (the highest value achieved was 51%, in NIF VI), and in three others it exceeded 30%. The minimum value of the index was 22.73%. In 2000 the C3 index reached 61% in NIF XV and 56.5% in NIF VI. For the next 10 NIFs it was over 35%.

Summing up the ownership situation of the NIFs, we see the state with quite significant shareholdings (amounting to 15% of the shares) but a passive role as a shareholder, the large number of small investors, and the quotation of NIFs on the Warsaw Stock Exchange (which requires quotation liquidity). It seems that, depending on the level of a given fund's concentration, control (direct and indirect) over packages of shares of 30–40% ensures full control. Analyzing the evolution of the C3 index, we observe that as early as 1998 two funds had reached the level of concentration ensuring such control (NIF III and IX[19]). In 1999 seven more funds did so[20], and in they were followed in 2000 by the remaining six NIFs[21]. Thus, all NIFs have achieved the concentration level at which the three most important investors own 30–40%, ensuring full and stable control over the funds.

Figure 3.6. The ownership share of NIFs



Source: The Polish Security and Exchange Commission (KPWiG), Polish Press Agency (PAP), Notoria Service and own calculation.

[15] C1 is the share of the largest single shareholder; C3 is the combined share of the largest three shareholders.

[16] See Simoneti et al. (2001) and Kocenda (2001).

[17] As of the end of 1998, 1999, 2000.

[18] NIF III and NIF XI merged in 2000.

[19] NIF III is controlled by the bank Pekao S.A. and NIF IX is controlled by the insurance company PZU S.A.

[20] NIFs IV, V, VI, VIII, XI, XII, XV.

[21] NIFs I, II, VII, X, XIII, XIV.

The analysis of the data presented in table 2A not only confirms the observation about the impressive pace of the concentration process presented in the first part of this section, but also gives rise to another very interesting hypothesis. It seems that at present new entries into the NIFs are only possible in the form of portfolio investments. If any economic unit is interested in acting as a large and active investor, it will have to buy a block of shares from another large investor, as the purchase of shares on the market will not yield a package of shares sufficient for control over the fund[22].

3.2. The main investors in the National Investment Funds

Table 3A (in the appendix) presents the main institutional investors on the NIF share market. We can divide them into two groups. The first group includes the largest institutional investors, who are interested in controlling the funds. The second group includes the most active portfolio investors.

As of the end of 2000, we can identify the three most active investors, who had taken control over the funds in the group of large institutional investors. They were domestic financial groups: two banks (BRE Bank and Pekao S.A.) and one insurance company (PZU S.A.). These institutions have directly or indirectly gained control over 11 funds. The remaining four funds are controlled by foreign investors.

As of the end of 2000, PZU S.A., the largest Polish insurance company, had become the most active and the most effective investor on the NIF share market. The company is currently undergoing privatization[23]. In three NIFs – II, IV and IX – PZU directly or through its daughter company, PZU Zycie S.A., owned significant packages of shares (see table 4A in Appendix). The share capital of PZU in these NIFs exceeded the level of 20%[24].

Since the end of 2000, PZU S.A. has also acquired control of NIFs X and VII. Previously these funds and NIF XIV were controlled by Everest Capital Polska Sp. z o.o. However, the Ministry of the State Treasury negatively assessed the activity of Everest Capital[25] and tried to regain the control over these three funds. It used PZU S.A. to take the control over these funds. As of the end of 2000, PZU S.A. had gained almost 10% of shares in NIF X. In VII NIF PZU had less then 5% of shares, but the State Treasury and PZU's actions were openly supported by three foreign financial institutions – Wood & Company, Deutsche Bank and Arnhold & Bleichroeder[26] – against the investors gathered around Everest Capital. By January 2001 the insurance group controlled, directly or indirectly, shares amounting to almost 33% of the equity capital of NIF VII, and over 20 of NIF X[27]. If we add to these shareholdings the shares under control of the Ministry of the State Treasury[28], we conclude that PZU S.A. controlled almost 36% of the shares in NIF X and almost 44% of the shares in NIF VII at that time.

BRE Bank S.A. is the second most important and effective investor on the NIF share market. As of the end of 2000 BRE Bank, supported by Everest Capital Group, controlled four funds: I, V, XIII and XIV (see table 5A in the appendix). BRE controlled, directly or indirectly[29], 26% of the shares in NIF I and over 32% of the shares in NIF V. In NIF XIII BRE, together with Everest Capital, controlled almost 40% of the shares, and in NIF XIV, Everest Capital (supported by Poland Opportunity Fund) controlled around 33% of the shares.

The very close cooperation between BRE and Everest Capital began in April 2000, when they decided to merge their management firms. At that time BRE's management firm managed three funds – I, V, XIII – and Everest Capital's management firm another three (VII, X, XIV). Thus, together they controlled six funds (the ownership structure of these six funds in January 2000 is presented in table 6A in the appendix). However, because of the conflict in September 2000 between the State Treasury, supported by PZU S.A. and Everest Capital[30], they lost control over two NIFs (NIF VII and X), though they managed to retain control over NIF XIV.

[22] We will try to verify that hypothesis in the next part of the paper, where we analyze the present ownership structure of the NIFs.

[23] 30% of the shares were already sold by the Ministry of the State Treasury through direct sales to a consortium including a Polish private bank listed on the Warsaw Stock Exchange, BIG BG S.A. (which acquired 10%), and a Portuguese investor, the fifth largest insurance company in Europe (EUREKO B.V., which acquired 20%). The remaining shares are under control of the Ministry of the State Treasury. The second stage of the privatization (IPO and sale of the second tranche of the shares to a strategic investor) was supposed to be finished in 2001, but for political reasons the privatization process was slowed down significantly, and it is unlikely that it will be completed in 2001.

[24] 20.2% in NIF II, 21.34% in NIF IV and 21.71% in NIF IX.

[25] 1999 net losses of NIF VII equaled 65% of the fund's equity, at NIF X they equaled 50% of the fund's equity and at NIF XIV 40.4%.

[26] In the opinion of several Polish capital market experts whom we interviewed during our research, these funds owned the shares on behalf of the insurance company. This opinion was also presented several times in the press.

[27] In these cases PZU also used the NIFs under its control to take control over NIF X and NIF VII. Analyzing table 4, we observe yet another example of the usage of the cross-ownership relation mechanism described in section 3.1.

[28] 10.74% at NIF X and 15% at NIF VII.

[29] That is, through the NIFs in its control (another example of the usage of the cross-ownership mechanism).

[30] Supported by BRE.

The third most active player on the NIF share market is Pekao S.A., one of Poland's largest and most dynamic banks[31]. Pekao S.A. is the largest institutional shareholder in NIF Jupiter, which was created in March 2000, after the merger of NIF III and NIF XI. As of the end of 1999, the shareholding of Pekao S.A. in these two NIFs exceeded 30%. In January 2001 its capital involvement in Jupiter amounted to almost 33% (see table 7A in the appendix).

There are four NIFs in which we can observe an active and institutional capital involvement of foreign investors. As of the end of 2000, Creditanstalt IB owned 54% of the shares of NIF XV[32] (see table 8A in the appendix). Allied Irish Bank, directly or through Wielkopolski Bank Kredytowy – WBK S.A.[33] and Bank Zachodni[34], owned almost 22% of the shares of NIF VI. Two other foreign financial institutions, Copernicus Investment Fund and NIF Fund Holding, also had significant holdings in that NIF. Their cumulative shareholdings in the NIF achieved the level of around 35% by the end of 2000. These two financial institutions also controlled the last two funds (VIII and XII) at that time. Together they held 32% and 26%, respectively, of the shares in these two funds.

In the group of institutional portfolio investors the three most active players are Deutsche Bank, CS First Boston and Arnhold & Bleichroeder (see table 3A in the appendix). As of the end of 2000 Deutsche Bank was the most active among the portfolio investors. It had small packages of shares[35] in 8 NIFs. Interestingly, two years earlier the Polish Security and Exchange Commission had not registered it as a shareholder owning more than 5% in at least one NIF. This is a stark contrast to CS First Boston. As of the end of 1998, the latter was the most active portfolio investor on the NIF share market, owning 9 small blocks of shares registered by the Commission. However, at the beginning of 2000 it decreased its shareholdings significantly, and by the end of 2000 it had only small shareholdings in NIF IX.

When we examine the capital involvement of the main investors on the NIF market, it appears that despite the fact that large foreign investors own larger shares capital in NIFs[36], domestic investors use their shareholdings more effectively. They control 11 funds, while foreign investors control only four. This indicates that Polish investors have concentrated their shareholdings, focusing on taking control over the funds. The data presented in table 3A (see appendix) confirm this. While in 1998 PZU S.A. had registered blocks of shares in 11 NIFs, in 2000 it had shares in only 5 NIFs. However, in 2000 its shareholdings in those NIFs were much greater. In contrast, foreign investors (with a few exceptions) are rather more interested in the role of portfolio investors. The more active position of Polish investors in the NIFs can be explained by the fact that domestic investors are much more familiar with the institutional and administrative framework of the NIF Program and can benefit much more from controlling the funds.

The analysis of the ownership structure of the NIFs and the main investors also confirms the hypothesis formulated in section 3.1 about the lack of space for entry of new large institutional investors. The ownership structure of the NIFs seems to be so concentrated, and current investors have such strong position in the NIFs, that if any institution is interested in entering the NIFs and acting as an active investor, it will have to buy blocks of shares from the present investors.

3.3. The Motives for Share Consolidation on the NIF Share Market

There are two possible motives for consolidation on the NIF share market, which are driven by two potential sources of benefits for large shareholders from controlling the NIFs. First, shareholders can benefit from the increasing value of the shares. Second, they can benefit from high asset management fees, signing management contracts with a management firm, which is controlled by the same shareholder or group of shareholders who control the fund. Analyzing the NIF share market, we have observed that the shareholders of the funds mainly benefit from the profits obtained from signing management contracts. As we will show in more detail in the next section, the relatively very high management fees paid to the management firms, together with the incentive fees for financial performance, constituted a significant part of the funds' financial base, reaching up to 50% of the entire market value of their assets during the years 1997–2000.

[31] It was privatized in August 1999 by UniCredito Italiano SpA and Allianz Aktiengesellschaft. Foreign investors took over 52.09% of shares of the bank.

[32] It is interesting that the Austrian investor increased its shareholdings by 16 percentage points, exceeding the level of 50% in the NIF just after the conflict between the Ministry of the State Treasury and Everest Capital started.

[33] AIB has 60% of the shares of WBK.

[34] AIB has 81% of the shares of Bank Zachodni S.A.

[35] Blocks of shares exceeding the level of 5% and registered by the Polish Security and Exchange Commission.

[36] See section 3.1.

On the other hand, prices of NIF shares were systematically declining since their very good beginning on the Warsaw Stock Exchange in May 1997. At the time of writing, the share prices are far below their book value. At the end of 1997 the cumulative share price of all 15 NIFs[37] amounted to 122.55 PLN. By the end of 1998, it had decreased to 65.65 PLN, in 1999 it fell to 59.77 PLN, and by the end of 2000 it had dropped to the level of 53.78 PLN. Very rare periods of increases in the shares' prices resulted from conflicts among the main investors aimed at taking control over the funds, or from short-term speculative movements on the market.

These data explain why shareholders are mainly interested in benefiting from the management contracts rather than from the increasing value of NIF shares. Moreover, the most active investors on the NIF share market have used the synergy effect[38] in order to maximize the profits of the management firms and aimed at controlling more than one fund. These attempts constituted a very important factor speeding up the consolidation and concentration process, which was finally reflected in the changed ownership structure of the funds.

As was mentioned in section 2, the service fee for the management firms consists of three parts: an annual fixed fee for management services, an annual performance fee for financial results (equal to 1% of the value of NIF shares for each year of management services), and a final performance fee for financial results (equal to 0.5% of the value of NIF shares for each year of management services). In the next section, we will show in more detail that the fixed cash fee constituted the most important (and increasing) part of the fund managers' remuneration. In contrast, the success fee for financial and final performance, which depends on the NIF share prices, has always been an insignificant (and declining) part of the management firms' remuneration, which does not stimulate the fund managers to increase the value of their NIFs.

We therefore conclude that the shareholders of the NIFs were mainly interested in signing management contracts with controlled management firms and receiving management fees.

The historical evolution on the fund management market and its present structure as well as the data presented in table 10A (in the appendix) and table 3.1 also tend to confirm our hypothesis about the motives for consolidation of NIF shares.

Initially NIFs signed management contracts with 14 management firms[39] (see table 10A). Up to the end of 1998 the supervisory boards, controlled mainly by the representatives of the State Treasury, terminated six management contracts[40]. At the end of 1998, when the validity of certificates of ownership expired and the process of the NIFs' real privatization accelerated, the institutional investors started to purchase significant blocks of shares and placed their representatives on the supervisory boards, trying to take the full control over them. As a result, in 1999 all NIFs had signed management contracts with management firms.

Table 3.1. Main investors controlling NIFs as of the end of 2000 and the main management firms operating on the NIF market

Leading Investors	PEKAO SA	BRE	PZU	WBK AIB	CA IB	Copernicus/ NIF Fund Holdings
NIFs controlled by leading investors	NIF III NIF XI Merger in march 2000 New NIF-Jupiter	NIF I NIF V NIF XIII NIF XIV	NIF II NIF IV NIF IX	NIF VI	NIF XV	NIF VIII NIF XII
Management firms	Trinity Management (the leading shareholder-PEKAO SA)	BRE Private Equity	PZU NIF Management	AIB WBL Fund Management	CA IB Management	KP Konsorcjum Sp. z o.o.
Capital involvement of leading investor	32.76%	NIF I - 14.22% NIF V - 14.97% NIF XIII - 9.78% NIF XIV - < 5%	NIF II - 20.20% NIF IV - 21.34% NIF IX - 21.71%	NIF VI - 21.57%	NIF XV - 53.73%	NIF VIII - 32% NIF XII - 25.5%

Source: CASE.

[37] That is, the sum of the prices of one share of each of the funds.

[38] The management firms started to manage more than one fund, reducing fixed costs. In one case, for a few months in 2000, one management firm managed 6 NIFs.

[39] Only NIF IX did not sign the management contract.

[40] In NIFs II, IV, VII, X, XI, and XIII.

3.4. The Most Active Management Firms

In 1999 PZU S.A. was the most active player on the fund management market. In 1999, its management firm PZU NIF Management[41] signed management contracts with three (II, IV and IX) of the seven NIFs which did not have management contracts. After signing the management contracts with NIFs II and IV, the PZU Group increased its shareholdings in these funds significantly. In NIF IV it did so directly by increasing its shareholdings by almost 10 percent and indirectly by another 9%, using other NIFs under its control. All these steps were aimed at defending the position of PZU on the supervisory boards and securing the signing of management contacts with PZU NIF Management.

Everest Capital Management Group was at that time the second most active player on the fund management market. It signed assets management contracts with two of the remaining NIFs which had no signed management contracts (VII and X). Additionally, in NIF XIV it managed to replace International Westfund Holding management firm. In April 2000 Everest Capital merged with BRE/Cresco Management Group[42], and BRE Private Equity Management Group was created[43]. Before the merger, BRE/Cresco management firm had managed three NIFs: I, V and XIII. BRE/Cresco had signed a contract with NIF I from the beginning, and in NIF V it replaced the Kleinwort Benson management firm[44]. NIF XIII had at that moment no signed management contract. As a result, a newly created management firm managed six funds. However, as we already noted, PZU, operating on behalf of and supported by the Minister of the State Treasury, tried to regain control over the funds managed by Everest Capital. In case of NIFs VII and X, PZU with its supporters managed to take over a sufficient number of shares and take control over the NIFs. As a result, management contracts between Everest Capital and these two NIFs were terminated[45]. However Everest Capital and BRE retained control over NIF XIV. They managed to buy enough shares on the market to block the placement of PZU representatives on the supervisory board and termination of the management contract. As of the end of 2000 the management group BRE Private Equity managed four NIFs: I, V, XIII and XIV.

The third largest management firm is Trinity Management Group[46], which manages the largest NIF – Jupiter[47]. Trinity Management Group signed an asset management contract with NIF III in 1995 and with NIF XI in 1999. In NIF XI we observed a significant increase of Pekao S.A. shareholdings after signing the management contract: in one year the bank doubled its shareholdings.

The fourth largest management firm is KP Konsorcjum Sp. z o.o.[48]. It manages two NIFs: VIII[49] and XII. It is the only case in which the main shareholders of the management firm are not directly connected with the main shareholders of the funds[50].

The two remaining funds are managed by management firms which are directly connected with the main shareholders. NIF VI is managed by AIB WBK Fund[51], and NIF V is managed by CA IB Management. These two funds have not changed management firms.

To sum up, the consolidation process of National Investment Funds shareholdings has been driven by the benefits obtaining from the assets management contracts. The main goal of the largest investors on the NIF market has been to achieve and defend their dominant position on the supervisory boards through acquiring sufficiently large shares in the NIFs. This, in turn, has allowed them to sign and to defend a management contract with selected management firms[52]. Additionally, the consolidation process was speeded up by the synergy effect[53] from managing more than one fund, which has maximized the profits for the management firms.

[41] 50% of its shares are owned by PZU S.A. and 50% by PZU Życie S.A., a life insurance company of which PZU S.A. owns 99.9%.

[42] Cresco merged with the BRE Management Group in March 1999, a few days after BRE Management Group bought out 50% of the shares of the Management Group from CA IB Investmentbank A.G. CA IB was represented in the management group by IB Austria Investment.

[43] 50% of the new management group was owned by BRE/Cresco and 50% by Everest Capital.

[44] The second largest shareholder of Kleinwort Benson management firm was PBR – the Polish Development Bank, which was taken over by BRE Bank. This eased the replacement of the management firm.

[45] As of the end of 2000 new management firms were not chosen.

[46] The shareholders of the management group are Pekao S.A. and Company Assistance Limited, a consultancy company established in 1991 in Warsaw by American and British consultants.

[47] NIF Jupiter was created by a merger of NIF III and NIF XI.

[48] Bank Handlowy holds 49.99% of the shares of KP Konsorcjum. 49.99% of the management firm is owned by KP International Ltd (KPI). The shareholders of KPI are: Kennedy International (30%), York Trust (30%), and Central European Consultancy Services Ltd. (40%).

[49] Since 1995.

[50] Not counting NIFs which have no management contracts with management firms.

[51] WBK owns 54% of shares of the fund, 26% AIB and 20% Nicom Consulting – Polish consulting company.

[52] Controlled by the same investor.

[53] Signing the managing contracts with more than one NIF by the same management firm.

4. Management of the National Investment Funds – Main Issues

4.1. The Corporate Governance Structure of NIFs

The main problem connected with the management of the NIFs results from the very complicated corporate governance structure of the funds. The division of tasks, rights and obligations among the three management organs (management boards, supervisory boards, and contracted management firms) and the relations between them and the State Treasury have been unclear from the beginning[54]. To the typical continental two-tier governance structure of joint stock companies (i.e., management board and supervisory board), the NIF legislation added a third organ – a contracted management company (firm)[55]. The idea behind this was to provide the funds with highly qualified management know-how from reputable Western firms, to ensure access to capital and financial markets and to ease the search for new investors for the NIF portfolio companies. Although the responsibilities of the NIFs' management boards and management firms were somewhat differentiated, their activities in real life obviously had to be interwoven. This required either their unification in one organ or the inclusion of a clear division of tasks and responsibilities between them in the NIF charters and in contracts signed with the management firms. The law provided three methods for resolving this question, but the response of the funds in most cases was to nominate the same people to both organs (personal union); in very rare cases they used the proxy option. This guaranteed unified management activity at the fund level but still did not resolve the problem of cooperation between the management and supervisory boards.

The supervisory boards of the NIFs were nominated in an unusual way: In the first step a special selection commission (criticized for being strongly politicized[56]) chose potential candidates for fund supervisory board membership and fund presidency. From this pool of candidates, the Minister for Ownership Transformation (today the Minister of the State Treasury) nominated the members and presidents of the supervisory boards of all NIFs. The tenure of office of each first supervisory board was set to expire at the time when its fund gained other shareholders than the State Treasury. The first supervisory boards received very broad rights from the Treasury, including several rights normally reserved for the shareholders. This was because the supervisory boards had to represent the State Treasury in the management of the funds. The State Treasury was initially the sole owner of the NIFs' shares and felt responsible for the "well-being" of the portfolio companies, which were formally held by a very large group of Polish citizens. It therefore placed a high priority on designing an appropriate fund management structure, in order to protect the interests of the citizen-shareholders.

This was the motivation for what became intensive day-to-day interference of the State Treasury in the funds' activities, using different instruments, both formal and informal. The State Treasury could use its ownership rights (directly as the sole shareholder or indirectly through supervisory boards of the funds and of the portfolio companies), could undertake regulatory measures and was sometimes prepared to use administrative methods too. This situation made the position of supervisory board members very ambiguous. While enjoying very broad rights in nominating the management boards, choosing and signing contracts with the management firms, and other strategic responsibilities, at the same time they were fully dependent on the decisions of the Ministry of State Treasury, being under its direct control. On the other hand, the members of the NIFs' supervisory boards, like their colleagues in other privatized

[54] See Wawrzyniak et al. (1998).

[55] However, employment of a management firm was not obligatory. The supervisory board could choose the classical management structure, without the contracted firm.

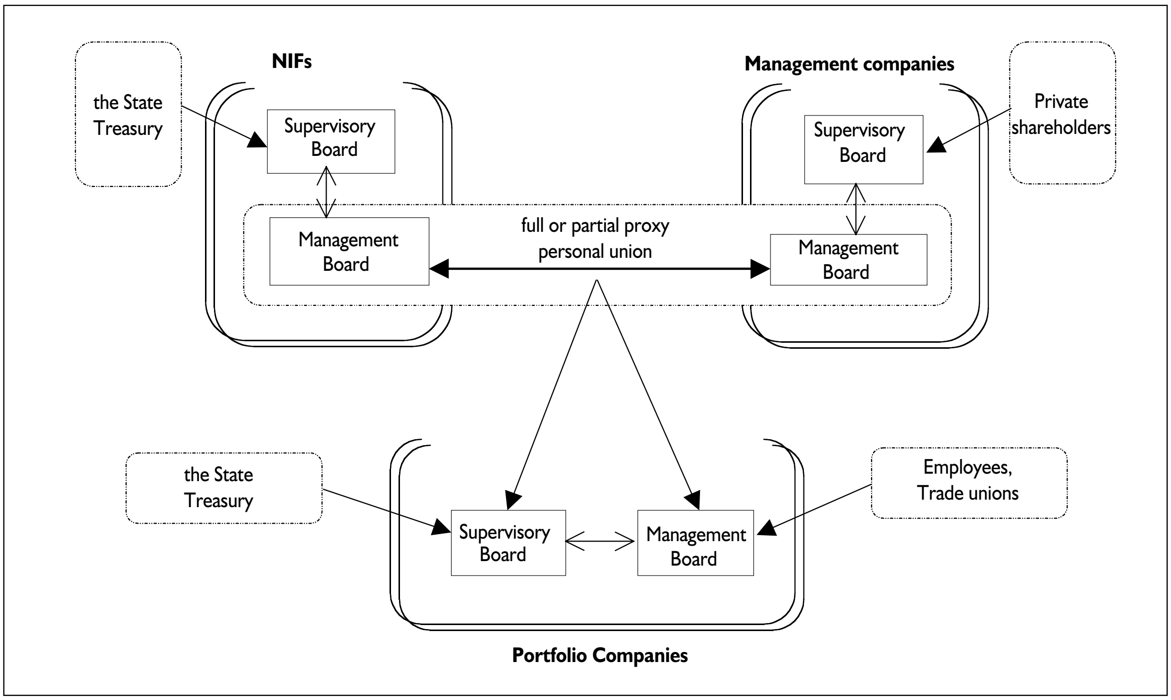
[56] The commission consisted of 19 members: 5 members appointed by the parliament, 2 by the two largest trade unions and 12 appointed by the Council of Ministers. The same commission made the primary selection of consortia that applied for the post of NIF management firms. The final selection of management firms was made by the supervisory boards of each NIF.

joint stock companies, sometimes failed to properly understand the role of the supervisory board and tried to interfere in the day-to-day management of the funds.

The position of the fund managers became quite difficult, as they were expected to conduct normal market-oriented activity and make risky investment decisions, while at the same time having limited power in day-to-day decisions and being dominated by representatives of the government and politicians. The lack of trust on both sides of the NIF management organs probably resulted from the enormous differences between the organizational cultures that formed the managers on the one hand and the members of the supervisory boards on the other. The latter were economists, often from academia, educated in communist Poland and supported by certain political parties but in most cases having little or no practical experience in financial issues and advanced management methods. The representatives of the management firms were usually experienced foreign financial market or investment specialists, coming from well-known international companies, but with limited knowledge of the realities of a transition economy. It was difficult for both sides to find a common language and to plan common activities in this unique and experimental program. Additionally, the problem of mutual understanding has deepened in those NIFs where the partners from the management companies came from Anglo-Saxon countries. They did not respect the authority of supervisory boards to control management activities even to the limited extent determined by the Polish Commercial Code. On the other hand, the NIF Act empowered management companies to create an investment strategy, and other actors, including the supervisory board, had to respect their decisions. All these regulations created a very confusing situation, in which the mutual relations among the three NIF management organs and the State Treasury had to be clarified day by day in practice, often by the use of political power. This in turn caused many conflicts and sometimes real battles, as well as disappointments all round. It is therefore not surprising that in such a situation each party tended first of all to secure its own benefits from participating in the program.

Since late 1998, the privatization of firms belonging to NIFs began in earnest. Private investors started to acquire shares of the portfolio companies in anticipation of the new legal situation beginning in January 1999, when the State Treasury no longer had majority power to control the funds' activities. This resulted in an acceleration of the privatization and consolidation process of the funds and changed their ownership structure, as we noted above. But the first three years after the funds' establishment were, to a large extent, lost for efficient secondary privatization, because mutual blocking mechanisms in the corporate governance structure of the funds hindered any decisive activity on the part of the fund management. The roles of different parties in controlling the management of NIFs and their portfolio companies are illustrated in figure 4.1.

Figure 4.1. The Scheme of Corporate Governance of the NIFs



Source: own description.

A second very important factor bearing on the overall effects of NIF privatization consists in the number and partially contradictory definition of tasks assigned to the funds. Including in these tasks both the economic and financial restructuring of portfolio companies and the privatization and raising of the value of the NIFs' assets made it difficult to realize all these goals simultaneously, at least in the short or medium term. The funds were obliged to privatize the companies (that is, sell them to new investors), prepare them for future privatization (by restructuring them), or (in the worst cases) liquidate the companies or initiate bankruptcy proceedings. There was political pressure from the State Treasury as well as from the trade unions of portfolio companies to avoid bankruptcy and liquidation of the companies, though such measures were provided for under the NIF Act. Often, there was also resistance from the portfolio companies' unions and management against radical restructuring. In effect, the restructuring activities of the funds, insofar as they extended beyond changes in the management boards of the portfolio companies, had a rather soft and defensive character. In reality, the funds were not prepared for strategic restructuring activities because of the lack of fresh capital that would have had to be invested in the enterprises. Some investment activities could be conducted through redistribution of financial means among the funds' portfolio companies or investing revenues from the sales of such companies. But such investments in rather poor companies were unlikely to be profitable. In connection with the restructuring task, one should note a frequent lack of realism in the poor portfolio companies' expectations toward the NIFs. They often hoped that the funds would resolve all their problems, provide capital for investment and give them access to new markets. On the other hand, better portfolio companies had more realistic views and expected, first of all, access to management know-how and help in searching for new investors. But most companies' managers objected to heavy influence of the funds on their activities[57].

Some activities of the funds directed toward the improvement of their own financial assets (which was one of their main obligations under the contracts) were not necessarily good for their portfolio companies and were sometimes blocked by the State Treasury. The funds tried to invest their liquid assets outside the NIF system, but the tax regulations and the new law on closed-ended investment funds made these attempts impossible or unprofitable. The Ministry felt responsible for the performance of the program, and was especially interested in "restructuring before privatization." It therefore tried to set limits on some of the activities of the fund managers which were directed toward quicker distribution of shares in portfolio companies. Long lasting battles between the funds and the State Treasury on the choice of "proper" strategies were endemic in the early stage of the program, when the majority of shares were in the hands of the state.

Finally, it turned out that the NIF managers strongly preferred secondary privatization (i.e., sale to other investors) as the main method of restructuring the portfolio companies. On the basis of our research, we suspect that other kinds of restructuring were not available in this concrete systemic context. The difficulty was due to the huge needs of the portfolio companies and the lack of financial means and industrial restructuring know-how (the lack of "enterprise doctors") at the fund level[58]. And it was probably not desirable due to the doubtful quality of the investment decisions which would likely be made by players so strongly driven by political forces. We believe that only certain types of new private owners (those with long-term profit orientation and significant decision-making authority) are able to improve the performance of the NIF companies that are still "alive". However, our empirical material is too limited (short time series) to allow for a conclusive answer to this question.

The economic performance of the portfolio companies has thus far been very unsatisfactory in comparison with expectations. This is well illustrated by the systematically declining prices of the funds since their very successful quotation on the Warsaw Stock Exchange in May 1997. At the time of writing, the shares are trading at far below their book value. At the end of 1996 the total value of the NIFs was estimated at 5.7 billion PLN (book value). By the end of 1997, their market value had declined to 2.8 billion PLN (45% of their book value)[59], and by the end of 2000 to 1.8 billion PLN[60]. Another measure of the same trend is the share of the capitalization of all the NIFs[61] in the total WSE (Warsaw Stock Exchange) capitalization. Whereas in June 1998 this ratio had reached 5.3%, by January 1999, it stood at 2.4%[62] and in December 2000 it had dropped to only 1.4%[63].

One of the main research questions, to which we are at this point only able to provide a partial answer, is the extent to which the construction of this privatization scheme influenced

[57] See Kamiński (2001).

[58] This was predicted by T. Stankiewicz in his 1996 paper, in which he argued that the funds should focus on the privatization function, where they can be efficient, and forget the restructuring function, where they cannot. See Stankiewicz (1996), and Petru (ed., 1996), 17.

[59] See Ministry of the State Treasury (1998).

[60] See Ministry of State Treasury (2001). Data are as of 31 December, 2000.

[61] This was the capitalization of funds and not their portfolio companies.

[62] See Górzyński (1999). This figure was computed on the basis of Warsaw Stock Exchange data.

[63] Own calculation on the basis of Warsaw Stock Exchange data and the Ministry of State Treasury (2001).

the economic performance of the enterprises privatized thereby. At this stage, it seems that the initial ownership structure of the NIFs, the associated corporate governance regime, the financial situation of the funds and their regulatory environment have not motivated fund management to engage in restructuring activities in enterprises, but have rather encouraged sales and liquidations. This tendency has been strengthened by the management incentive system existing at the NIF level (see the next section). At the same time, strong government influence has hindered faster privatization of the NIF portfolio companies and the consolidation activities of the funds. The internal inconsistency of the NIF system, together with the unfavorable conditions on the capital market, unfavorable tax regulations and the activist stance of the State Treasury, narrowed the scope of possible activities of the funds and might be among the main reasons that the this program has not lived up to expectations.

4.2. The Management Costs of NIFs

Each NIF signed three contracts with a management firm, of which the most important is the *contract for the management of the NIF's assets* signed for a 10-year period. This contract, based on the NIF Act and the individual charters of each NIF, regulates the manner in which assets are managed by management firms, the relationship with management board and supervisory board, and details on proxy rights, duties and responsibilities for the running of the company. Most importantly, it determines the annual flat cash fee for management services, which is defined in the NIF Act. This fee theoretically depends on the number of portfolio companies, and was originally agreed to range from 2.5 to 3 million USD yearly for each NIF[64].

The price of the several hundred state-owned enterprises that took part in the NIF Program was not fixed. However, the State Treasury and supervisory boards of the funds had at least some idea about the worth of their property when they negotiated the fees for the management firms. The book value of the net assets of 509 out of the 512 NIF companies amounted to 10.9 billion PLN in 1995, whereas the net assets of 492 companies for the year 1996 were estimated at 10.3 billion PLN[65]. Because only 60% of the shares of leading companies was contributed to the funds, we may estimate that the NIFs were provided by the Ministry of the State Treasury with net assets worth about 6.5 billion PLN[66].

The book value of the net assets of the NIFs on 31 December 1996, when they had acquired all portfolio companies and their balance sheets had been reviewed, was estimated at 5.7 billion PLN[67] (according to other sources, the value of the assets of the 512 portfolio companies equaled about 7 billion PLN[68]).

Initial simulations of the entire remuneration for the management firms (based on the assumption that original program parameters such as the number of NIFs, the exchange rate, etc., would remain unchanged) yielded a figure of 2.7 billion PLN (including the annual flat cash fees totaling 1.2 billion PLN and the annual and final performance fees totaling 1.5 billion PLN)[69]. This was a very generous decision, given the fact that the sum which management firms could hypothetically earn constituted almost half (45%) of the managed assets. Additionally, it was clear from the beginning that the fixed element of the total fee (the annual flat cash fee) was too large relative to the remuneration for financial performance (yearly and final), potentially distorting the incentive system for fund managers.

The actual costs of management, however, far exceeded even these expectations. Table 4.1 illustrates the total management costs for all NIFs for the years 1995–2000, broken down into annual flat cash fees and additional fees for financial performance. We can see from the table that, as of the end of 2000, the total amount spent on management services in the NIFs exceeded the huge sum of 756 million PLN, equaling 42.4% of the entire capitalization of the funds (see also table 4.3). The relative significance of the fees for financial performance in the entire remuneration of the fund managers was remarkably low. Detailed data on the management costs of each of the 15 NIFs, broken down by the types of fees, are shown in table 11A in the appendix.

It is interesting to look at the relative proportions of the different types of fees during the implementation of the

[64] The second agreement, signed trilaterally by a fund, a management company and the Ministry of the State Treasury, is a contract concerning fees for financial efficiency and regulates mutual relations among the parties pertaining to extra fees for financial performance (an annual performance fee and a final performance fee) amounting to 15% of the market value of the fund's shares over a ten-year period. The last one – the global contract – signed by the same parties, defines the relations among them until such time as the share of the Ministry of the State Treasury drops below 75%.

[65] Authors' own calculation.

[66] That is, 60% of the 10.9 billion PLN worth of assets contributed by the State Treasury in the form of portfolio companies.

[67] See Ministry of the State Treasury (1998).

[68] See Kostrz-Kostecka (1995), p. 23.

[69] The calculation was based on the following assumptions: an annual flat cash fee of 8 million PLN per fund (with a fixed exchange rate) for management services, a maximum number of 15 funds hiring management firms, a period of 10 years for which the original agreements were signed, net assets introduced to the program in fixed price equal to on average 6 billion PLN. Thus, we have:

· annual flat cash fee: 8 million PLN x 15 funds x 10 years = 1.2 billion PLN,

· annual and final performance fee for financial performance: 6.0 billion x (15%/60%) = 1.5 billion PLN, yielding a total of 2.7 billion PLN.

Table 4.1. The management costs of the management firms (in millions of PLN)[70]

Year	1995	1996	1997	1998	1999	2000	Sum of annual flat fees	Extra fees for financial performance	Global fee
Total yearly fees for all NIFs	44	112	120	115	119	115	627	128	756

Source: own calculation on the basis of Warsaw Stock Exchange: annual financial reports of NIFs.

program. In 1997 the total fee for financial performance and final performance equaled, on the average, around 41% of the fixed cash fee for management services (see table 4.2)[71]. In 1998, as the price of NIFs' shares started to decrease, that ratio decreased to the level of 28%. In 1999 and 2000 it dropped even lower, to the level of 23%, demonstrating the increasing significance of the fixed portion of the management firms' remuneration. We do, however, observe some differences in this respect between the funds.

Table 4.3 shows the ratio of the total management costs of the management firms to the capitalization of the funds, calculated on the basis of average yearly prices in the years 1997–2000[72]. As this table is broken down by 14[73] NIFs, we can see this ratio separately for each NIF, as well as the dif-

Table 4.2. Ratio of the total performance fees to the annual fixed cash fee for services of management firms 1997–2000

	1997	1998	1999	2000
Max. value of the ratio	NIF XIV - 52%	NIF XIV - 38%	NIF VIII - 33%	Jupiter- 42%
Min. value of the ratio	NIF V - 25%	NIF XV - 21%	NIF XV - 11%	NIF XII - 11%
Average value of the ratio	41%	28%	23%	23%

Source: own calculations on the basis of Warsaw Stock Exchange: annual financial reports of NIFs

Table 4.3. The ratio of the yearly management fees of management firms and of the global fees for the entire period to the average yearly price capitalization of the funds (1997–2000) [74]

NIF	1997	1998	1999	2000	Global fee [75]
NIF I	9.1%	20.3%	41.2%	51.1%	59.0%
NIF II	4.2%	7.4%	18.2%	31.7%	36.9%
Jupiter	5.5%	10.5%	27.3%	22.8%	29.3%
NIF IV	6.4%	13.5%	20.6%	32.9%	41.6%
NIF V	13.3%	24.8%	34.4%	66.6%	74.1%
NIF VI	9.2%	18.8%	25.2%	40.7%	48.9%
NIF VII	9.7%	17.2%	31.7%	47.5%	54.4%
NIF VIII	6.3%	12.8%	16.8%	18.3%	26.6%
NIF IX	1.0%	1.4%	4.8%	9.3%	12.3%
NIF X	4.3%	8.1%	16.5%	25.8%	33.3%
NIF XII	8.2%	17.6%	45.2%	83.0%	91.3%
NIF XIII	6.0%	14.4%	27.0%	47.2%	55.4%
NIF XIV	6.0%	12.7%	22.0%	34.4%	42.7%
NIF XV	7.9%	19.5%	41.4%	62.3%	70.7%
Average	6.9%	14.2%	26.6%	41.0%	48.3%
TOTAL	6.6%	13.4%	25.3%	35.2%	42.4%

Source: own calculations on the basis of Warsaw Stock Exchange: annual financial reports of NIFs.

[70] These costs include the NIFs' costs of financial advising in the years 1995–2000 and the extra fees for financial performance owed to management companies for the years 1995–2000.

[71] The value of the success fee element of management company remuneration (i.e., fee for financial and final performance), is equal to a stated percentage of the NIF's share prices at the time the fee is paid. It should be stressed that the fees for financial performance owed to the management firms, regardless of whether they were paid yet or not, constitute expenses on the budget of the State Treasury but are not visible on the balance sheets and income statements of the funds.

[72] The average yearly price capitalization of a fund equals the average yearly price of a fund's share multiplied by the average number of fund shares issued.

[73] Due to the fact that NIF III and NIF XI were merged to form NIF Jupiter.

[74] The management fees include financial advising costs; global fees include performance fees.

[75] Including fees for financial performance for the entire period.

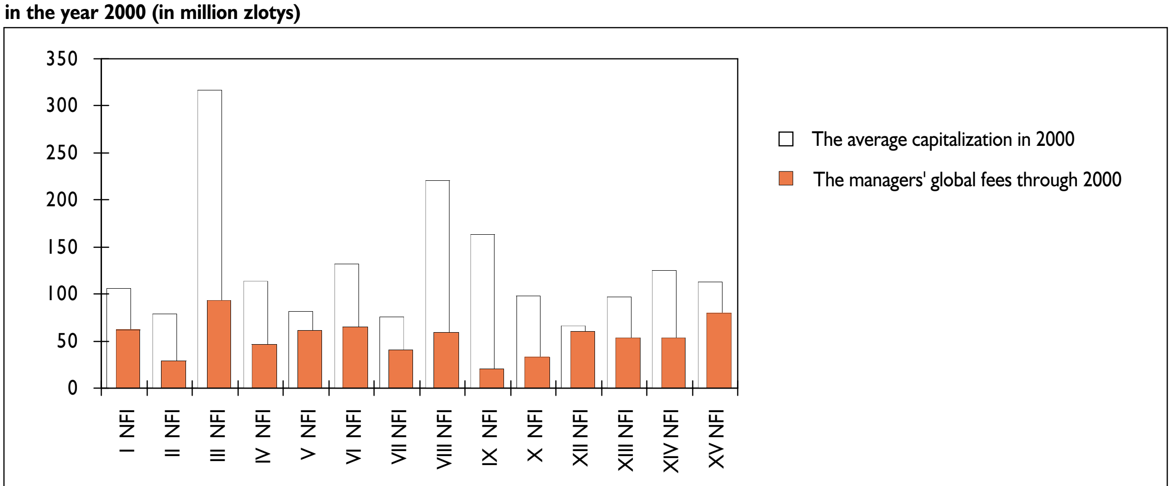
ferences among them. While, as noted above, the ratio of total management costs of all funds to their total capitalization was 42.4%, the average ratio calculated for one fund was 48.3%, showing that some funds had very high costs in relation to their capitalization. Indeed, we can see that NIF XII had a ratio as high as 91.3% and NIF V one of 74.1%. We also note that the only fund in which the ratio of total management costs to capitalization did not exceed 15% was NIF IX, which was the only NIF that was not run by a management firm. This fact shows that the use of contracted management companies was very expensive business for the program.

Moreover, management fees were not adjusted downward to reflect the falling levels of actual costs to the management firms. For example, until 1999, the annual flat fees of the management firms were not adjusted to reflect the decreasing numbers of companies under the funds' management (because of their sale to other investors, liquidation or bankruptcy). Similarly, the consolidation of funds, which placed more than one fund under the supervision of one management firm, did not influence the amount of the fee. Currently, a small number of management companies are managing the funds (in particular, as we showed in section 3.4, two firms are managing seven funds). We can conclude from this that the initial number of funds was too high and economically unjustified. In the case of several management firms, strong efforts undertaken to privatize a large number of companies (about which we will have more to say in the next section) may explain their management costs. Indeed, we have found that the correlation between the management costs and the number of companies sold and/or placed at the public market is positive, significant and high (0.59, or 0.49 if we take into account liquidations as well). However, there is not yet sufficiently convincing evidence[76] that the funds that had the highest management costs were the most efficient in privatizing their portfolio companies.

A short overview of the ratio of management costs to capitalization of the funds is given in figure 4.2 below. Analyzing the data shown in the tables above and in figure 4.2, we see clearly that the management costs of the funds may soon consume the entire value of their assets. The conclusion is quite obvious – in the second half of the program's life (planned for ten years), unless there is an unusual growth in the price of fund shares or a radical reduction in managers' fees, the management costs will exceed the market value of the managed property. In this situation it is very likely that the NIF Program will be concluded sooner than planned, if possible*.

In conclusion, we would like to emphasize that we do not blame the management firms and their private shareholders for this situation. They have been acting within the framework of the rules set by the law and have engaged their resources in the acquisition of fund shares in order to maximize profits. But the existing legal and regulatory framework made those profits much easier to achieve through high management fees than through other more risky activities. From the beginning, the incentive system of the NIF management had weak points, such as the high fixed fees which were not proportionate to costs and independent of performance, the unclear corporate governance structure of the funds and the lack of any effective mechanism for punishing bad management. There were not

Figure 4.2. Management firms' global fees through the year 2000 and the average yearly price capitalization of the funds in the year 2000 (in million zlotys)



Source: own calculation on the basis of Warsaw Stock Exchange: annual financial reports of NIFs.

[76] Due to the shortness of the time series available.

* Recently, we noted many press signals that the NIFs plan to acquire packages of their own shares as large as allowed by the law, in order to liquidate themselves ahead of schedule.

enough incentives for the managers to increase the value of the funds' assets during the period of State Treasury ownership domination. Following withdrawal of the State Treasury, the situation in this respect became even worse, because the new shareholders of the funds were also the main shareholders of the management firms and were thus interested in minimizing the value of the funds during the time in which they were acquiring shares in them.

During the first two to three years of the NIF Program, investors had a positive attitude toward it. This was reflected in the high expectations concerning the development of the funds' portfolio companies and the high share prices of funds. As they observed the actual activities of the funds and their high management costs, however, investors became more and more disappointed, which was reflected in the constantly declining share prices. No one had foreseen that a multitude of negative signals would create an aura of doubt and distrust around the whole program on the part of investors. This has caused a collapse of fund share prices in the recent years, which has further deteriorated the negative atmosphere. The greatest disappointment with the declining value of NIF assets and shares is for the small shareholders who decided not to sell their NIF shares but to keep them, with the expectation that this portion of the national assets would increase in value.

All this was not predicted by the reformers and legislators who wrote and passed the NIF Act. They tried rather to resolve all systemic issues in the law than to establish a proper incentive system and a consistent governance structure that would encourage the sorts of activities they were hoping the NIFs would engage in. In general, the experience of the funds proved again that a law cannot be designed to account for all aspects of the activity of economic systems as complicated as the funds. Nevertheless, we would add that because the program was a pioneering undertaking, not all of the problems that appeared could have been predicted.

5. The Strategies of the National Investment Funds

5.1. Initial Restructuring Attempts

At the start of the NIF program all funds declared their intentions as to what kind of restructuring policy they would implement. They differed in their approaches to the question of whether to sell their portfolio companies and when. Some funds planned to establish large capital groups around the NIF companies which could later be transformed into holding companies[77]. Other funds wanted to play the role of venture capital funds and treated their control of the portfolio companies as a temporary activity, declaring that their chief goal was to gain profits from the sale of attractive companies to other owners. Yet another group of NIFs emphasized the diversification of their portfolios.

The expectations of the portfolio companies themselves played a minor role in the formulation of funds' strategies. These companies were highly differentiated, especially with respect to their economic standing, and their expectations with respect to the funds depended largely on whether they were in relatively good or relatively poor financial shape. Weak enterprises were hoping for the funds to support them by solving their financial and management problems. These companies wanted the funds to find them strategic investors or support in the privatization process. They also wanted the management firms to facilitate access to credit and markets. This group seems to have relied excessively on the funds to take initiatives that would improve their condition, and their expectations were largely disappointed.

The second, more "independent" attitude was characteristic for companies in good financial condition. Such companies were participating in the NIF program mainly with the hope that it would facilitate contacts with strategic investors and allow them to obtain credits guarantees. Generally speaking, the better performers wanted minimal interference of the NIFs in their activities, and rather looked only for the funds to help them in exploring new strategic directions and sometimes to help in finding instruments that would allow them to move in those directions. The anticipation that the funds would be able to play such a role was their most important motivation to stay in the program.

In the first two to three years of the funds' operation, they were able to directly or indirectly conduct programs of limited organizational restructuring that were similar in all companies ("restructuring without expenditures"). Personnel changes in the boards of directors were very frequent[78]. Additionally, most companies introduced strategic planning and marketing plans. New bookkeeping systems were introduced and new departments established (mainly in the commercial and marketing areas), and the accompanying training carried out. Defensive changes, in form of "extracting" service and other independent units from the companies' structures, were also made. Changes in employment were also frequent (first reduction, later stabilization). But the shortage of fresh investment capital became a serious barrier for any deeper restructuring process in the companies.

The only way for the companies to escape from this "holding position" was sale to other investors. Some fund managers understood this and accelerated their efforts in this direction. The results of these efforts are presented in detail in the next section.

5.2. Privatization Activity: A Relative Success of the National Investment Funds

The main aim of this section is to answer the question whether the NIF Program accelerated the privatization process in Poland. In order to do this we try to compare the privatization efficiency – i.e., the quantitative privatization results – of the National Investment Funds (NIFs) and the Ministry of the State Treasury (MST) (in the case of the latter, we will deal with indirect privatization only). We are interested in trying to answer the question whether trans-

[77] See The Stock Exchange Almanac 2000, published by Parkiet – Gazeta Giełdy.

[78] See Kaminski (2001), Wawrzyniak et al. (1998).

ferring the authority to privatize over 500 companies from the ministry to the NIFs was an effective privatization strategy. Without the National Investment Funds Program, the State Treasury companies participating in it would most likely have been indirectly privatized by the Ministry of the State Treasury through its so-called capital privatization path (private sale or public offering).

There are a number of arguments for making such a comparison of NIF privatization and MST indirect privatization:

1. Use of the same or similar privatization methods.

2. The same legal status of the companies (so-called commercialized companies, no longer operating under the 1981 State Enterprise Act, but under the Commercial Code).

3. The similar size and branch structure of the companies (excluding infrastructure and heavy industry).

Both groups have experienced similar problems with respect to privatization. First, there are not enough domestic and (interested) foreign investors with sufficient capital for covering the costs of restructuring the companies. Second, the costs of privatization of certain companies are too high. Another vital aspect is the political dimension. The atmosphere of public debate on privatization, charged with suspicion and mutual accusations, has made privatization in Poland relatively difficult, both for the NIFs and for the MST.

For instance, the case of Tormięs (a meat factory in Toruń) was widely discussed. Although Tormięs' liabilities exceeded its assets, and the company went finally bankrupt, Foksal NIF (NIF X) invested a few million PLN in the company due to social and political pressure. However, it seems that the more privatized the funds became, the less attention they paid to political pressure and the more they paid to economic efficiency.

In contrast, the MST is still under the strong influence of political factors. At present, there are whole branches of the economy where privatization has barely started (e.g., the mining industry, the sugar industry, and the spirit industry), and the delays are due to strong pressures exerted by trade unions, farmers' organizations and other lobbies. The recent two-week occupation of the minister's office by a member of parliament from the agrarian lobby shows that not much has changed in this respect.

The strategies of the NIFs may also slow down the privatization of the companies participating in the NIF Program. Out of the five available strategies (privatization, restructuring, consolidation, investment and liquidation), only two (privatization and liquidation) directly speed up the privatization process. The strategy of investment may influence the pace of privatization because thanks to it a given fund obtains the capital necessary for new projects. On the

Table 5.1. The effects and efficiency of the privatization of the NIFs and the Ministry of the State Treasury (1996–2000)

No.	Year	1996	1997	1998	1999	2000
1	Number of commercialized and not privatized companies held by MST	404	558	624	698	727
2	Number of companies indirectly privatized by MST, of which:	24	44	16	18	21
3	sold to domestic investors	3.960%	3.943%	0.962%	1.433%	0.963%
4	sold to foreign investors	1.485%	1.613%	0.641%	0.287%	1.100%
5	sold to private entrepreneurs	0.248%	0.717%	0.160%	0.860%	0.688%
6	publicly traded	0.248%	1.613%	0.801%	0.000%	0.138%
7	Privatization efficiency of MST (2/1)	5.941%	7.885%	2.564%	2.579%	2.889%
8	Number of commercialized and not privatized companies held by NIFs	512	495	425	324	261
9	Number of companies privatized by NIFs, of which:	17	70	101	63	26
10	sold to domestic investors	1.758%	6.465%	11.529%	9.568%	4.981%
11	sold to foreign investors	1.172%	3.434%	4.941%	2.469%	1.533%
12	sold to private entrepreneurs	0.391%	1.616%	4.941%	6.790%	3.448%
13	publicly traded	0.000%	2.626%	2.353%	0.617%	0.000%
14	Privatization efficiency of NIF (9/8)	3.320%	14.141%	23.765%	19.444%	9.962%
15	Ratio of NIF privatization efficiency to MST privatization efficiency (14/7), of which:	55.9%	179.3%	926.8%	754.0%	344.9%
16	for companies sold to domestic investors (10/3)	44.4%	164.0%	1199.1%	667.8%	517.3%
17	for companies sold to foreign investors (11/4)	78.9%	212.9%	770.8%	861.7%	139.3%
18	for companies sold to private entrepreneurs (12/5)	157.8%	225.5%	3083.3%	789.9%	501.4%
19	for publicly traded companies (13/6)	0.0%	162.8%	293.6%	---------	---------

Source: own calculation on the basis of the Ministry of the State Treasury, Dynamika Przekształceń Własnościowych.

other hand, the strategies of restructuring and consolidation, used together, cause the slowing of privatization because the firms are retained for a longer period of time.

No matter what the chosen strategy or the economic and political situation of the funds is, privatization is also greatly influenced by the policies employed by the NIFs, which are not fully revealed to public opinion. In the majority of cases (as we have shown) the management companies charge very high fees for running the funds – fees which are unjustified in comparison to the value of the managed property. From the point of view of the owner of a management company, who is usually also an owner of the fund, there are no rational reasons for the quick privatization of the portfolio companies, which would hasten the liquidation of the fund, depriving the shareholders of the management company of huge incomes. This fact may have an influence on the way the strategies are carried out, especially the strategy of privatization and the selection of companies to undergo privatization.

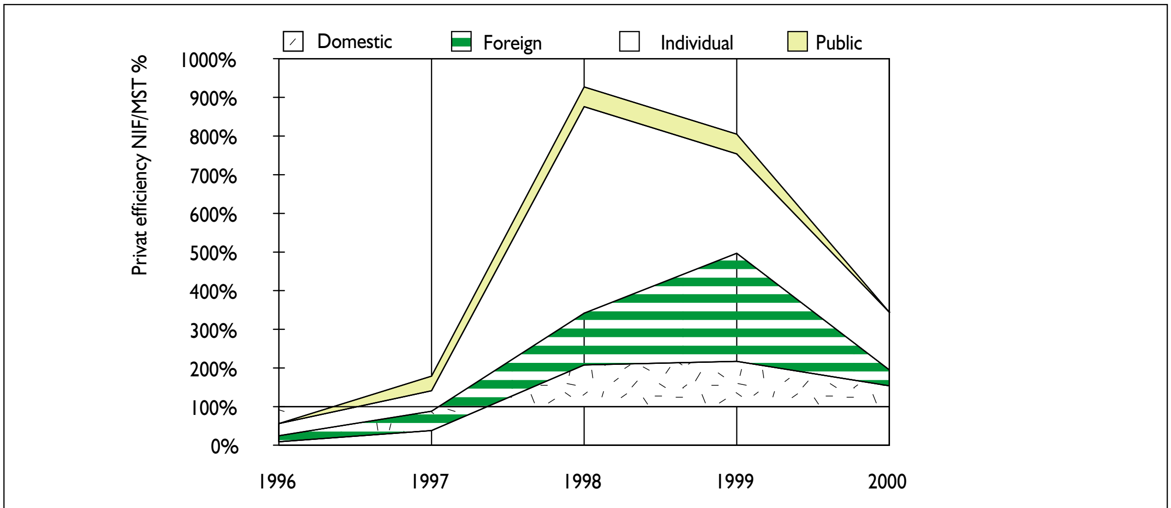
A similar problem may appear in privatization by the MST. On the one hand, the ministry is urged to improve the economy, to increase the competitiveness of enterprises and, most of all, to provide the state with budget revenue. On the other hand, the ministry is afraid to lose its power and the seats on boards of directors and supervisory boards which can be distributed to political supporters, as this would lead to the loss of status for the ministry. Such an attitude may lead to economic irrationality and a lack of objectivity in making certain decisions, and, consequently, to slowing down the pace of privatization.

Bearing the above considerations in mind, we will compare the quantitative effects and efficiency of privatization of the NIFs with those of the MST by comparing the ratio of the number of companies privatized in one year by an entity to the total number of companies held at the end of the year by the same entity. The pool (total number) of companies held by each of the two entities (MST or NIFs) is made up of the commercialized companies which have not yet been privatized (and are potentially available for privatization). In order to compare the new ownership structure of the companies privatized by NIFs and the MST, we divided up the privatized companies by the type of the new investor in the following way. The types of investors included domestic corporate investors, foreign investors, private individuals and public trading (stock exchange and over-the-counter market).

Table 5.1 shows clearly that, apart from the year 1996 (the first year of the program), the privatization efficiency of the NIFs in each year and in each of the selected categories greatly exceeded the privatization efficiency of the MST. The smallest differences were generally those for publicly traded companies, which can be explained by the high costs and lengthy procedures of IPOs. In the remaining group of investors the difference amounts to several hundred per cent or even more.

Figure 5.1 shows the structure of the differences in the ratio of NIF privatization efficiency to MST privatization efficiency in the examined years by investor type. Apart from the singular great increase in the share of privatization for private individuals in 1998 (which was caused by the low efficiency of MST privatization in that year and investor category) and the singular decrease in the share of privatization for foreign investors in 2000 (which was caused by the low efficiency of NIFs), the structure of differences in the ratio of privatization efficiency between NIFs and MST is relatively stable. It is striking that NIF efficiency, both in absolute terms and relative to MST privatization efficiency, reached a peak in

Figure 5.1. Differences in the ratio of NIF privatization efficiency to MST privatization efficiency (1996–2000)



Source: own calculation on the basis of Dynamika Przekształceń Własnościowych published by the Ministry of the State Treasury.

1998. It was in this year that the privatization of the funds started and representatives of private owners appeared for the first time on the boards of the funds. For these reasons, less attention started to be paid to political and social factors and much more to economic ones. Even if the strategies were not totally pro-privatization, the funds had to consider privatization as a means of obtaining the revenues necessary to continue the strategies they had started. Since 1999, in which privatization and bankruptcy exceeded the critical amount equal to half of the companies held, privatization efficiency has been decreasing. We can, moreover, hypothesize that privatization will continue to slow down over the next few years due to the aforementioned factors – i.e., the unwillingness of the funds to liquidate quickly, the continuation of restructuring strategies and the continually decreasing number of companies available for privatization. In conclusion, we can answer the question posed at the beginning of this section positively: the introduction of the NIF program made it possible to accelerate the privatization of state-owned companies considerably for a few years. However, internal barriers that appeared in the program because of its incentive system have slowed down this pace again.

5.3. The NIFs' Privatization Strategies and Their Market Prices

Privatization strategies result in negotiated sales of companies to selected investors, the quotation of companies on public markets, bankruptcy and liquidation. All of these effects make up the privatization activity of NIFs. In order to determine the relationship between the particular funds' strategies and the market price of the funds' shares, we compare NIF privatization strategies to determine the nature of the correlation between privatization effects and the real price of fund shares[79].

We observe from table 5.2 that the greatest number of companies (as many as 134 by the end of 2000) were sold by NIFs to domestic corporate investors. In contrast, considerably fewer companies (about 60 in each category) were sold to foreign investors and private individuals, declared bankrupt or liquidated. The smallest number (only 25) was quoted on the public market[80]. The fastest increase in the rate of divestiture in the years 1998–1999 took place in the categories of domestic corporate investors and private indi-

Table 5.2. The effects of NIF privatization strategies and correlation between privatization effects and the real price of funds (1996–2000)

NIF	Number of companies	Domestic corporate investors	Foreign investors	Private individuals[81]	Public market	Bankruptcy and liquidation	Privatization activity	Real Price
NIF I	35	10	2	5	5	5	27	0.057
NIF II	34	8	2	6	2	5	23	0.059
NIF III/Jupiter	34	13	3	5	2	6	29	0.072
NIF IV	35	11	3	3	0	2	19	0.069
NIF V	35	11	2	6	0	1	20	0.055
NIF VI	35	5	6	6	2	3	22	0.067
NIF VII	34	2	1	2	0	5	10	0.049
NIF VIII	34	10	5	4	0	7	26	0.079
NIF IX	34	8	7	3	2	4	24	0.084
NIF X	33	5	3	2	2	2	14	0.062
NIF XI/Jupiter	33	12	6	1	6	3	28	0.075
NIF XII	33	13	2	3	0	2	20	0.056
NIF XIII	34	11	4	5	1	4	25	0.069
NIF XIV	34	8	4	5	3	1	21	0.076
NIF XV	35	7	6	6	0	2	21	0.069
Total	512	134	56	62	25	52	329	1
Correlation		0.2559423	0.8207247	-0.0676051	0.218824	0.1302656	0.5644276	

Source: own calculation on the basis of the Ministry of the State Treasury, Dynamika Przekształceń Własnościowych, and data from Parkiet-Gazeta Giełdy

[79] The real price of the funds' shares is defined as the ratio of the average yearly price of a fund share to the average yearly index of funds' share prices (called NIF) on the public market.

[80] In fact, 36 companies were quoted on the public markets. However, in some of them NIFs sold the largest blocks of shares to strategic investors. Such companies were included in the category reflecting the type of strategic investors.

[81] Including employees.

viduals; growth was slower in the categories of foreign investors and public quotations.

The leaders in privatization activity from the beginning have been NIF III and NIF XI (later merged to form one fund, Jupiter). NIF VI and NIF IX were keeping up with them until 1999, when its activity slowed considerably. NIF I, however, increased remarkably, catching up with the leaders. These funds sold from 20 to 25 companies and bankrupted 3–6 companies, which left them with 5–8 companies, 15% of the original 33–35. The shares of different investor categories do not differ considerably from the average. The only exceptions are NIF IX, which sold the largest number of companies (seven) to foreign investors, and NIF XI, with a record number of six companies quoted on the public market. It is also clear that the leaders have started the greatest number of bankruptcy and liquidation proceedings.

The least active "marauders" since the beginning of privatization have been NIF VII and NIF X. In 1999 they were almost joined by NIF XII, which practically stopped its activity. NIF V left this group, having doubled the number of sold companies in 1999. These funds sold from 5 to 12 companies, bankrupted 2–5 companies, and were left with 19–24 companies, i.e. 56–70% of the original 33–34. In this group the share of investors differs greatly from the average. All funds of this group were unwilling or unable to make IPOs or bankrupt or liquidate their companies. (An exception here is the least active fund, NIF VII, which sold only five companies, but bankrupted five.)

The analysis of the correlation presented in table 5.2[82] shows a very strong positive relationship between the real price of a fund share on the one hand and the number of companies sold to foreign investors (cf. the high real price of NIF VIII, NIF IX and NIF XI and the low real price of NIF I, NIF V, NIF VII and NIF XII) on the other. There is also a positive correlation between the real price and the number of companies quoted on the public market (cf. the high real price of NIF IX, NIF XI and NIF XIV and the low real price of NIF V and NIF VII), the number of companies sold to domestic investors (cf. the high real price of NIF III, NIF VIII and NIF XI and the low real price of NIF VII and NIF X) and the total privatization activity of funds (cf. the high real price of NIF III, NIF VIII, NIF IX and NIF XI and the low real price of NIF V, NIF VII, NIF X and NIF XII).

We conclude, therefore, that the capital market places a premium on funds whose privatization strategies put special emphasis on selling companies to foreign investors and, to a lesser extent, selling companies to domestic investors and quoting them on the public markets. This is due to the fact that foreign investors are willing to pay large sums for the companies that interest them, sometimes much more than companies' value as reflected in its balance sheet. Such spectacular transactions undoubtedly help to improve the image of the funds. The less significant relationship, as the effect of lower prices paid for companies, is found in the case of domestic investors. Companies quoted on the public market are usually among the best ones. This policy of the funds makes it easier to price them, increases their transparency and makes them more attractive to investors. It also provides effective promotion and advertisement, letting them maintain friendly relations with investors. Finally, it seems that the capital market rewards a high rate of privatization activity, which is reflected in the higher prices of the funds' shares.

5.4. The New Owners of the NIF Companies and the Structure of Their Shareholdings

The most important observation concerning the NIFs' activities in recent years is that they are active in searching for new owners for their portfolio companies. As of December 2000, over a half of these companies (278) have found new investors, including companies quoted on the stock exchange (27) or over-the-counter market (12). In addition, 78 companies were under bankruptcy or liquidation procedures (of which nine have already been liquidated at the time of writing). In all, secondary privatization has affected, in our estimation, 330 firms[83]. Some of them have mixed structures; for instance, part of the shares of a company with an active shareholder may be traded on the stock exchange. In 57 firms, foreign investors have appeared. In 89 companies the State Treasury share has been reduced to zero[84].

In analyzing the funds' activity in this area, we have applied two criteria: first, the number of firms sold; second, the number of firms sold in 1999 and 2000 (here the intention is to measure what has happened to the pace of secondary privatization in recent years). The number of NIF firms sold is shown in table 5.3.

Each NIF sold between 5 and 23 of its portfolio companies to investors. The least active NIFs in this area were NIF

[82] These results are confirmed by correlations (not presented here) for each of three earlier periods (1996–1997, 1996–1998, 1996–1999) analyzed separately.

[83] It is difficult to provide accurate data because of their preliminary (unofficial) character and because some enterprises occur in more than one group (as, for example, in the case of companies sold to new investors during the bankruptcy or liquidation process).

[84] See Ministry of the State Treasury (2001), Dynamika Przekształceń Własnościowych No. 47 (data as of 31 December, 2000).

Table 5.3. Ownership changes of NIF firms (number of cases as of 31 December, 2000)

NIF Symbol	Firms with new owners (total)	Firms sold in 1999 and 2000
1	22	13
2	18	5
3	23	7
4	17	6
5	19	12
6	19	1
7	5	3
8	19	8
9	21	4
10	12	3
11	25	3
12	18	5
13	21	11
14	20	5
15	19	5
Total	**278**	**91**

Source: own calculation on the basis of the Ministry of the State Treasury, April 2001, Dynamika Przekształceń Własnościowych, No. 47

VII (only 5 firms) and NIF X (12 firms). The remaining funds all sold 17–23 firms. There was no very visible differentiation between the NIFs (excepting the three mentioned above); however, we can mention NIF III as the leader in the area of divestiture.

Of the 278 NIF companies transferred to date, 91 were sold in 1999 and 2000. On the whole, therefore, we have not observed a significant acceleration in this area. The exceptions are NIFs I, V, and XIII, which significantly accelerated the pace of divestiture. Of the 22 total companies sold by NIF I, for instance, 13 were sold in 1999. Interestingly, this Fund was previously referred to as a restructuring-focused one, whose declared strategic priority was increasing the value of its companies through long-term restructuring. The acceleration of divestiture by this fund, after considerable restructuring efforts in the past, may be seen as confirmation of the opinion that the transfer of the companies to new owners was a better solution than further restructuring by the NIFs, both for the companies and for the funds. The solutions proposed earlier by some funds (e.g., organizational and capital consolidation) have proved to be a poor substitute for sale to outside strategic investors.

Table 5.4 shows that all categories of investors participating in other types of privatization in Poland are represented among the new owners of the NIF companies. The most numerous new owners are domestic strategic investors (large domestic companies), who became shareholders in over 134 companies. In over 10 cases, domestic investors took over the companies in bankruptcy or liquidation processes. In a few cases shares in the firms with domestic strategic investors were also quoted on the stock exchange or sold to private individuals. The next most numerous category of new owners consists of foreign investors, who have taken over 57 firms. In three cases, their acquisition occurred via the transfer of assets of liquidated companies. In a few cases in the "foreign" group, the new investors also included domestic owners or dispersed shareholding on the stock exchange. Individual private owners took over 48 firms. In a few cases, this occurred during bankruptcy or liquidation procedures.

Employees became shareholders in 14 NIF companies. Given the fact that investors from this group are generally unable to provide the capital support necessary to these weak companies, the fact that the participation of employee-owned companies in the secondary privatization process has been so limited should be seen as fortunate.

Twenty-five companies were publicly quoted (on the stock exchange and the over-the-counter market). Among these publicly traded companies, 16 companies also have leading shareholders. The low number of companies taking part in this "beauty contest" may be seen as a quality measure of the condition of NIF firms. Only good enterprises are brought to the stock exchange, and the fact that only a little over 5% of NIF companies have made it into public trading does not attest to the strength of the NIFs' restructuring programs.

It seems likely that the character of the secondary ownership changes in the NIF companies provides some promise for the development of their future potential. The structure of ownership emerging in these companies is different from the structure that had been created in the pool of firms privatized by other methods in Poland, since in most cases new strategic investors, who can be future agents of changes, have appeared.

To conclude this section, we turn our attention to a more detailed examination of the ownership structure of

Table 5.4. New owners of the NIF firms (leading shareholders[a], number of cases, 31 December, 1999)

NIF	Number of companies	Domestic corporate investors**	Foreign investors**	Private** individuals	Employees	The stock exchange*	OTC market*	Bankruptcy and liquidation
1	35	10	2	4	1	2	3	5
2	34	8	2	4	2	1	1	5
3	34	13	3	3	2	2	-	6
4	35	11	3	1	2	-	-	2
5	35	11	2	3	3	-	-	1
6	35	5	6	6	-	-	-	3
7	34	2	1	1	1	-	-	5
8	34	10	5	4	-	-	-	7
9	34	8	8	2	1	-	2	4
10	33	5	3	2	-	1	1	2
11	33	12	6	1	-	4	2	3
12	33	13	6	1	-	4	2	3
13	34	11	4	5	-	1	-	4
14	34	8	4	5	-	3	-	1
15	35	7	6	5	1	-	-	2
Total	512	134	57	48	14	15		52

Source: own calculation based on the Ministry of the State Treasury, Dynamika Przekształceń Własnościowych, various issues (1996–2000).
a/ The companies have been classified here to each category, taking into account leading owners, possessing the majority shares in the company, what makes the difference between these data and the official data from the Ministry, accounting for the appearance of new investor, independent from his share.
* – Ownership structure is dominated by dispersed shareholders.
**–29 enterprises started bankruptcy procedures after secondary ownership changes with the domestic and foreign investors and individual private entrepreneurs.

Table 5.5. The average share of the largest shareholder in NIF portfolio companies

	1996	1997	1998	1999	2000
Mean	33.94	36.63	41.25	46.25	48.28
Standard deviation	5.29	10.03	15.67	20.38	22.76
Median	33	33	33	33	33
Number of firms	512	512	512	512	512

Source: Grosfeld, Hashi (2001), op. cit.

Table 5.6. Changes in the equity holdings of the State and of NIFs

	1994	1995	1996	1997	1998	1999	2000
Mean state shareholdings	100	54.07 (33.07)	25.35 (4.88)	23.62 (5.15)	22.40 (6.29)	21.82 (7.04)	21.50 (7.01)
Number of firms with 100% state equity	512	170	0	0	0	0	0
Number of firms with 0% state equity	0	0	0	0	4	60	99
Number of firms with 0% NIF equity	512	170	7	58	143	206	239
Mean shareholding of the lead NIF*	33.00 (0.02)	33.00 (0.02)	32.94 (3.77)	33.89 (5.88)	34.93 (9.03)	35.50 (10.43)	35.78 (10.88)
Number of firms with a second NIF as shareholder	0	0	3	11	18	18	15
Mean shareholdings of the second NIF*	-	-	17.47 (2.50)	20.19 (11.58)	22.02 (21.71)	23.81 (25.35)	19.62 (22.20)

Source: Grosfeld, Hashi (2001), op. cit.

* The mean value is calculated only for the companies, which still have NIFs among their shareholders.

Standard deviations are in parentheses.

the NIF portfolio companies, using the results of investigations of our research partners from this project[85]. According to these data, the concentration in the companies began to increase, more slowly than in the funds, but remarkably. By the year 2000, the largest shareholders were in near-absolute control in about one third of the companies. This is illustrated in table 5.5.

The position of National Investment Funds and the State Treasury in the portfolio companies has rapidly evolved in the post-privatization period. Table 5.6 summarizes this evolution. As the quoted authors report, the state has clearly withdrawn from active ownership and participation in the affairs of these companies. In 99 companies, the state has reduced its holding to zero[86], while its average share in the remaining companies has fallen to about 20%. In 239 firms, the NIFs have completely disposed of their shares and left them to the new owners. Interestingly, the average share of lead NIFs in their portfolio companies has slightly increased and stabilized at about 36%. A small number of companies have a second NIF as large shareholders (over 15%).

Whereas in the early days of the Polish schemes, only NIFs and the state were the main players involved, other dominant ownership groups entered the process gradually, and many of them have now gained dominant positions in the companies, as shown in table 5.6. These numbers go a long way to meeting the initial objectives of the program and are in sharp contrast with the overall negative assessment of the NIF scheme.

With respect to the concentration of ownership stakes, it is striking that, on the average, most strategic investors have gained absolute control (more than 50%) of the firms' equity. Financial institutions and other NIFs have, on average, about 33–35% of shares. The employees, who were given special privileges in the Polish mass privatization, have acquired control of only a small number of companies.

[85] See Grosfeld, Hashi (2001), pp. 19–21.

[86] According to the Ministry, in 89 companies at the end of 2000.

6. The Economic Performance of NIF Companies

6.1. An Overview of the Entire NIF Group in Comparison with Other Groups of Companies

The group of enterprises included in the NIF program made up approximately 6% of the entire pool of state-owned enterprises and represented about 10% of state-owned assets in 1995. The net assets of 509 of the 512 NIF companies were valued at 10.9 billion PLN (book value) at the end of 1995. The current value of their actual assets is much lower. In December 2000, the market value of shares belonging to all NIF companies was assessed by the State Treasury Ministry at 1.8 billion PLN[87].

On the average, NIF companies are of medium size (200–1000 employees), and operate chiefly in the manufacturing or construction sectors. The manufacturing companies are dominated by machinery and equipment, foods and beverages, and the chemical, construction materials, metallurgy and garment industries. The most attractive enterprises (such as telecommunication, energy, infrastructure etc.) were not included in this group. Between June 1991, when the first group of enterprises was chosen for the program, and 1995, when the program finally started, many enterprises with good performance left the program, choosing the indirect (or "capital") privatization path. The economic and financial performance of the remaining companies has deteriorated because of the delay of the program and the lack of restructuring activities during the waiting phase. This resulted in a very sharp decline of all economic and financial indicators of the whole NIF sector. Other systemic reasons that were discussed in previous sections seem to have strengthened this tendency.

In this section, concerning the financial situation of the companies, we present selected economic and financial indicators for the entire group of NIF portfolio companies from 1991 to 1999, in comparison with other groups of Polish firms, categorized by the character of their ownership, as follows:

1. Firms privatized by commercial methods such as trade sales and initial public offerings, referred to in Poland as indirect privatization; this group is divided into two subgroups:
   – firms with foreign investors and
   – firms with domestic investors.
2. Firms privatized by methods referred to in Poland as direct privatization (mostly employee-owned companies).
3. State-owned enterprises undergoing privatization, including:
   – firms undergoing direct privatization and
   – joint-stock companies wholly owned by the State Treasury[88] (which we will refer to as "State Treasury companies").

The evolution of the profitability of the 512 enterprises in the NIF Program gives little grounds for optimism (table 6.1). In 1991, the companies designated for participation in the NIF Program had positive profitability indicators which placed them near the average for the entire group of currently and formerly state-owned enterprises presented in the table. As we have mentioned above, in the years prior to the NIF program's takeoff, deep changes in the enterprises that had been designated for privatization in the program were stopped and their ability to generate profits reduced. At the end of 1994, the introduction of this Polish version of mass privatization was already late and continued to be delayed, and the firms which remained in the pool of enterprises designated for NIF privatization tended to be among the weakest in the economy (better firms had left the program after their patience had been exhausted). In 1995, profitability fell rapidly, and the NIF group became unprofitable. Their performance continued to deteriorate in each subsequent year (with the exception of 1997).

In 1999 this group of Polish enterprises had the worst profitability of those presented in table 6.1. The best results were achieved by enterprises privatized by indirect meth-

[87] See Ministry of the State Treasury (2001).

[88] So-called commercialized enterprises.

Table 6.1. Gross profitability[89] of NIF companies and other groups of Polish companies (1991–1999)

Group of companies	1991	1992	1993	1994	1995	1996	1997	1998	1999
Privatized total	0.10	0.07	0.06	0.07	0.07	0.05	0.06	0.04	0.03
Indirect privatization	0.16	0.15	0.15	0.11	0.12	0.08	0.09	0.07	0.06
Domestic investors	0.16	0.16	0.17	0.13	0.13	0.10	0.11	0.08	0.06
Foreign investors	0.15	0.10	0.09	0.07	0.09	0.06	0.06	0.06	0.07
Direct privatization	0.10	0.07	0.07	0.07	0.05	0.05	0.05	0.03	0.02
State-owned	0.04	0.01	0.03	0.05	0.05	0.02	0.02	-0.03	-0.02
State Treasury Companies	0.04	0.02	0.05	0.06	0.07	0.04	0.03	>0	-0.01
NIF	0.09	0.05	0.03	0.04	**-0.01**	**-0.02**	**<0**	**-0.018**	**-0.045**

Source: own calculation on the basis of: Report of the Ministry of the State Treasury on Privatization (1999), database of the Ministry of the State Treasury, Monitor Polski B (1995–2000).

Table 6.2. Net profitability[90] of NIF companies and other groups of Polish companies (1991–1999)

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Privatized total	0.02	0.02	0.02	0.04	0.04	0.02	0.03	0.02	0.01
Indirect privatization	0.05	0.06	0.07	0.06	0.07	0.04	0.05	0.04	0.04
Domestic investors	0.05	0.07	0.08	0.08	0.06	0.05	0.06	0.04	0.03
Foreign investors	0.05	0.03	0.04	0.04	0.06	0.03	0.03	0.03	0.04
Direct privatization	0.02	0.03	0.03	0.03	0.03	0.03	0.03	0.02	0.01
State-owned	-0.03	-0.05	-0.02	0.02	0.02	>0	0.01	-0.04	-0.03
State Treasury Companies	-0.04	-0.04	<0	0.03	0.03	0.02	0.01	-0.01	-0.02
NIF	0.01	>0	-0.01	0.02	**-0.030**	**-0.036**	**-0.016**	**-0.028**	**-0.051**

Source: own calculation on the basis of: Report of the Ministry of the State Treasury (1999), database of the Ministry of the State Treasury, Monitor Polski B (1995–2000).

ods, and in this group the leaders were companies with foreign capital. Their relatively high gross profitability and its stabilization in the period 1995–1999 confirm numerous previous observations that this group of companies has the best economic performance.

The deterioration of the macroeconomic situation in 1999 led to a decrease of gross profitability in all groups of enterprises (with the exception of the foreign-owned ones), but only the state-owned companies and NIF companies had negative gross profitability.

Net profitability started to decrease for the NIF companies in 1995 and never recovered (see table 6.2). Much better results were achieved in 1999 by other groups of privatized enterprises, and even by State Treasury companies. It is clear that the capital and/or strategies of other investors were more effective in generating improvements in companies than were the NIFs.

If we narrow our focus to the group of firms which generated profits (Table 6.3), we see that a greater percentage of the NIF companies in this group is profitable than in the case of the state enterprises undergoing privatization. The highest percentage of profitable firms is in the group of firms privatized directly[91].

Although the group of companies with foreign investors has the highest profitability as a whole, we see from Table 6.3 that the percentage of profitable foreign-owned firms has gradually declined. We believe that this is connected, first, with the practice of transfer pricing, used very often by multinational companies, and second, with the strong differentiation of the "foreign" group. The latter is made up on the one hand of enterprises in very good financial situations and, on the other, of companies with weak financial indicators, undergoing expensive restructuring. The results of other research show that companies with foreign investors priva-

[89] Gross profitability equals gross profit divided by sales revenues.

[90] Net profitability equals net profit divided by sales revenues.

[91] We can explain this partially (for the years immediately after privatization) by the selection bias. This group of companies had a relatively good starting point because the Ministry of Ownership Transformation (now the Ministry of the State Treasury) accepted only firms in relatively good standing for this method of privatization. Moreover, observations over the course of the last decade show that "insiders" have learned their owners' role quite effectively and (in general) achieve positive effects, despite the lack of external sources of capital and rather conservative strategies. See also Kozarzewski and Woodward (2001).

Table 6.3. Number of firms with net profits (%)

	Total	1992	1993	1994	1995	1996	1997	1998	1999
Privatized total	100	79	73	80	79	79	80	73	64
Excluding NIF	100	72	74	80	82	83	80	74	n.n.
Indirect privatization	100	78	71	74	80	84	79	69	63
Domestic investors	100	76	69	77	81	88	83	72	62
Foreign investors	100	82	73	70	76	78	71	65	65
Direct privatization	100	74	77	83	85	86	83	77	74
State-owned enterprises	100	66	66	75	79	78	68	57	45
State Treasury Companies	100	66	66	71	75	75	60	51	39
NIF	100	73	63	73	**62**	**53**	**68**	**63**	**44**

Source: own calculation on the basis of: Report of the Ministry of the State Treasury (1999), database of the Ministry of the State Treasury, Monitor Polski B (1995-2000).

Table 6.4. Current ratio

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Privatized total	1.32	1.18	1.66	1.64	1.64	1.48	1.44	1.40	1.29
Indirect privatization	1.40	1.46	2.01	2.09	1.88	1.53	1.50	1.51	1.42
Domestic investors	1.41	1.51	2.20	2.34	2.07	1.49	1.45	1.51	1.38
Foreign investors	1.37	1.34	1.71	1.71	1.61	1.60	1.58	1.52	1.49
Direct privatization	1.28	1.11	1.87	1.88	1.65	1.59	1.43	1.31	1.24
State-owned	1.03	0.86	1.15	1.32	1.22	1.06	0.97	0.82	0.78
State Treasury Companies	1.04	0.88	1.37	1.66	1.58	1.32	1.20	1.11	1.07
NIF	1.43	1.29	1.70	1.86	**1.86**	**1.86**	**2.00**	**1.72**	**1.43**

Source: own calculation on the basis of: Report of the Ministry of the State Treasury (1999), database of the Ministry of the State Treasury, Monitor Polski B (1995–2000).

tized relatively early have the best achievements in restructuring thanks to the impact of the strategies and capital of the owners[92]. But the "latecomers" in this group may be struggling with problems similar to those experienced by other kinds of less successful investors, or (alternatively) their positive influence may still be invisible in the short period of time which has elapsed since they acquired the NIF portfolio companies.

In contrast, the firms from the NIF group had both negative profitability on the average and a low share of profitable firms (this share deteriorated sharply in 1999, from 63% in the previous year to 44%). The deep difference between NIF companies and foreign-owned companies appeared in 1999. The percentage of profitable foreign-owned companies stabilized, but that of NIF firms fell rapidly. Generally, 1999 was a "moment of truth" of sorts after the difficult year 1998. The percentage of profitable privatized enterprises (excepting the NIF companies) was stable and much higher than in the weaker state-owned sector.

Financial liquidity, as measured by the current ratio[93] (see table 6.4), began to decline in all groups of Polish enterprises except NIF companies in 1995. Relatively high liquidity (near world standards) was found in companies privatized by "indirect" methods[94], and the lowest in state-owned enterprises. The NIF companies also had relatively high liquidity, taking second place (after foreign-owned companies) in 1999. Efficient management of current assets is probably the greatest strength of NIF control.

The liabilities-to-assets ratio provides both an indication of the role of external capital in financing a company and the ability of an enterprise to service its debt out of current revenues. By world standards, this ratio should be between 0.57 and 0.67. If we look at the values in table 6.5, we see the best values in firms privatized directly. State-owned firms, including State Treasury companies, achieved results which were not far from international standards, probably

[92] See Kamiński (1999).

[93] The current ratio equals current assets divided by short-term liabilities.

[94] We can assume that the lower current ratios of the firms with the foreign owners are due to changes in marketing practices, which is one of the main directions of restructuring in that group of enterprises. This interpretation is supported by the stabilization of the quick ratio (i.e., current assets minus inventory, divided by short-term liabilities). This was also observed in other groups of firms, but to a lesser extent.

Table 6.5. Liabilities-to-assets ratio

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Privatized total	0.35	0.41	0.48	0.49	0.39	0.43	0.47	0.49	0.53
Indirect privatization	0.32	0.32	0.38	0.41	0.35	0.40	0.44	0.47	0.50
Domestic investors	0.32	0.31	0.38	0.39	0.33	0.38	0.42	0.46	0.49
Foreign investors	0.30	0.34	0.40	0.48	0.39	0.43	0.48	0.50	0.53
Direct privatization	0.43	0.53	0.58	0.60	0.54	0.56	0.60	0.60	0.62
State-owned	0.35	0.46	0.53	0.54	0.35	0.40	0.45	0.52	0.57
State Treasury Companies	0.40	0.50	0.53	0.54	0.39	0.44	0.47	0.50	0.53
NIF	0.30	0.34	0.40	0.48	**0.32**	**0.34**	**0.37**	**0.40**	**0.40**

Source: own calculation on the basis of: Report of the Ministry of the State Treasury (1999), data base of the Ministry of the State Treasury, Monitor Polski B (1995–2000).

for the same reason as in direct privatization group: lack of external sources of the capital. Firms privatized by "indirect" methods had an unusually low use of external sources of capital. The NIF companies, too, had low liabilities-to-assets ratios. Use of external sources of financing has become increasingly important for them, but they are still not leveraging themselves to the extent that they should in order to meet their restructuring and current needs.

The entire financial analysis of NIF companies in comparison with other Polish companies leads us to the conclusion that control by the funds has not caused an improvement in the performance of the portfolio companies which are in weak condition.

6.2. The Performance of NIF Companies Sold to New Owners

In this section we present the financial situation of NIF companies that have undergone secondary ownership changes (i.e., have been sold to new owners). We divided the NIF companies into groups by the type of new owners emerging as a result of secondary ownership changes:

– domestic and foreign strategic investors,

– private individuals,

– employees,

– dispersed ownership (companies quoted on the stock exchange), and

– those companies in which (a) National Investment Fund(s) continues to be the main owner.

We analyzed the financial reports from almost all enterprises taking part in the program using a database prepared for the needs of this research project. We have gathered complete financial information for the years 1996–1999 for each of 429 of the 438 NIF portfolio companies which were not undergoing bankruptcy and liquidation procedures or already liquidated. Our intention was to learn whether the restructuring of the enterprises by the NIFs and the new owners has brought any effects on financial performance and which group of owners achieved the best financial results.

We additionally divided the firms that had undergone secondary ownership changes into groups by the date of their sale, in order to take into account the length of the period of influence of the new owners on the enterprises. In analyzing the economic indicators and financial ratios we also took into account the number of the firms that have undergone bankruptcy or liquidation as a measure of the failures of different types of owners. Moreover, in analyzing these data, we have to take into account the following considerations. First, the sample contains companies from most of the industries represented in the Polish economy, ranging in size from the very small, with minimal assets, to the large, with sales in the hundreds of millions of PLN. The high differentiation in the financial standing of the companies is evidenced by the large gap between the average sales figure when weighted by assets and the arithmetic average for sales, as well as by the median and the standard deviation for the various groups of companies (see table 6.12). It is important to remember that this lack of uniformity in the groups of companies has an effect on the results of our microeconomic analysis.

The relatively short amount of time following the acquisition of the NIF portfolio companies by investors (less than two years on the average) is also significant. Because of this, it is impossible to carry out a meaningful comparative analysis of the financial standing of the companies in the period in which they were held by the NIFs and the period following acquisition. Such a short period is not sufficient to allow for the appearance of discernible financial improvements resulting from the investments and restructuring activity undertaken by the investor, and to eliminate the effects of decisions made by the previous owner. Only the addition of the companies' performance data for the years 2001–2001 to the analysis would suffice to make the differentiation of the financial effects of the two ownership periods feasible. Finally, the results of the analysis were affected by the macroeconomic downturn (decreasing rates of growth) in the Polish economy in 1998–1999.

The research carried out in the first stage of this project showed an economic decline in all of the groups of NIF portfolio companies (see tables 6.6–6.9). Detailed analysis of the economic performance of the NIF companies (grouped by the type of investor and the year of sale to that investor) showed no significant relationship between the change in the financial performance of the companies following their acquisition and the type of investor acquiring them. (The results of this research are not presented here but are available upon request.) The following performance indicators were used in that analysis:

– gross sales profitability (gross profit / sales revenue),
– net sales profitability (net profit / sales revenue),
– return on assets (net profit / assets),
– return on equity (net profit / equity capital),
– liquidity – current ratio (current assets / short-term liabilities), and
– liquidity – quick ratio (current assets minus inventory / short-term liabilities).

The reliability of profitability indicators is unfortunately very limited in transition countries. Companies very often use various methods to conceal their true profits, and in doing so make it difficult or impossible to base a reliable assessment on profitability indicators. This is especially visible in the case of foreign-owned companies, which often use transfer pricing to generate losses. Additionally, one-off high net profits in companies that have experienced financial distress often result from the result of debt restructuring

Table 6.6. Gross and net profitability

Leading Shareholder		Total	N	Gross profitability		Net profitability	
				1995	1999	1995	1999
Domestic corporate investors	Average	106	105	-0.060	-0.032	-0.073	-0.036
	Median	106	105	0.001	0.000	-0.002	0.000
Foreign investors	Average	49	48	0.005	-0.093	-0.018	-0.098
	Median	49	48	0.020	-0.020	0.007	-0.020
Domestic individuals	Average	30	29	-0.013	-0.011	-0.026	-0.020
	Median	30	29	0.004	0.000	0.000	0.000
Employees	Average	13	13	-0.112	-0.137	-0.120	-0.138
	Median	13	13	-0.091	-0.022	-0.091	-0.022
Stock exchange	Average	28	28	0.049	-0.053	0.019	-0.023
	Median	28	28	0.048	0.001	0.028	0.000
NIF companies	Average	212	206	0.010	-0.038	-0.012	-0.046
	Median	212	206	0.027	0.000	0.010	0.000
Total	**Average**	**438**	**429**	**-0.010**	**-0.045**	**-0.030**	**-0.049**
	Median	**438**	**429**	**0.018**	**0.000**	**0.006**	**0.000**

Source: own calculations.

Table 6.7. Net ROA and ROE

Leading Shareholder		**Total**	**N**	**Net return on assets**		**Return on equity**	
				1995	**1999**	**1995**	**1999**
Domestic corporate investors	Average	106	105	-0.057	-0.045	-0.042	-0.121
	Median	106	105	-0.004	0.000	0.001	0.000
Foreign investors	Average	49	48	0.016	-0.067	-0.009	-0.143
	Median	49	48	0.009	-0.045	0.013	0.000
Domestic individuals	Average	30	29	-0.047	-0.051	-0.145	-0.122
	Median	30	29	0.001	0.000	0.002	0.003
Employees	Average	13	13	-0.114	-0.196	-0.322	-0.454
	Median	13	13	-0.083	-0.045	-0.212	-0.063
Stock exchange	Average	28	28	0.041	-0.011	0.047	-0.034
	Median	28	28	0.043	0.000	0.067	0.000
NIF companies	Average	212	206	0.005	-0.050	0.005	-0.098
	Median	212	206	0.012	0.000	0.017	0.000
Total	**Average**	**438**	**429**	**-0.014**	**-0.053**	**-0.026**	**-0.089**
	Median	**438**	**429**	**0.008**	**0.000**	**0.013**	**0.000**

Source: own calculations.

Table 6.8. Current and quick ratios

Leading Shareholder		Total	N	Current ratio		Quick ratio	
				1995	1999	1995	1999
Domestic corporate investors	Average	106	105	1.601	1.087	0.871	0.737
	Median	106	105	1.406	1.030	0.654	0.571
Foreign investors	Average	49	48	1.923	1.365	0.986	0.998
	Median	49	48	1.762	1.069	0.682	0.614
Domestic individuals	Average	30	29	1.448	1.056	0.626	0.618
	Median	30	29	1.446	0.781	0.555	0.428
Employees	Average	13	13	0.697	0.613	0.381	0.385
	Median	13	13	0.698	0.630	0.363	0.335
Stock exchange	Average	28	28	2.219	2.374	1.079	1.363
	Median	28	28	1.952	2.008	0.804	1.072
NIF companies	Average	212	206	2.053	1.592	1.074	1.060
	Median	212	206	1.765	1.390	0.804	0.811
Total	**Average**	**438**	**429**	**1.858**	**1.428**	**0.964**	**0.948**
	Median	**438**	**429**	**1.560**	**1.193**	**0.733**	**0.682**

Source: own calculations.

Table 6.9. Number of firms with positive net profit (%)

Leading Shareholder	Total	N	1995	1996	1997	1998	1999
Domestic corporate investors	106	105	48%	52%	65%	66%	48%
Foreign investors	49	48	71%	48%	54%	54%	33%
Domestic individuals	30	29	52%	41%	52%	38%	52%
Employees	13	13	23%	0%	31%	38%	31%
Stock exchange	28	28	89%	79%	93%	79%	43%
NIF companies	212	206	70%	57%	75%	66%	44%
Average	**438**	**429**	**63%**	**53%**	**68%**	**63%**	**44%**

Source: own calculations.

agreements with their creditors and therefore fail to reflect their real financial situation. Finally, return on equity in companies with negative equity (there are a large number of such companies among those sold to domestic individuals and employees) is entirely devoid of explanatory value.

The decline in the economic condition of NIF portfolio companies is demonstrated by the large percentage of these companies which have gone into bankruptcy or liquidation (see table 6.10). More than 15% of the companies have been liquidated or gone bankrupt, and one third of these companies had been sold earlier to various types of investors (especially domestic individuals).

In a group of companies as large and diversified as the NIF portfolio companies, given the methodological problems described above, the best measure of performance appears to be sales. The ratio of sales in 1999 to sales in 1995 allows us to draw conclusions concerning the change in their financial and market situation during that period. We studied these changes in the second phase of the project.

Companies sold to external investors had two different owners during the period under analysis. As mentioned above, however, it is impossible to completely analytically separate the sub-periods in which they belonged to those different owners in order to distinguish between the economic performance effects of those owners (making the appropriate corrections for changes in market conditions, demand, etc.). For this reason, we analyze the performance of the portfolio companies for the entire 1995–1999 period, without breaking that period down into sub-periods. We do, however, break the companies down into groups with respect to the type of investor and the year of sale of the firm.

Table 6.11 shows the sum of sales for the aforementioned groups of NIF portfolio companies. Table 6.12 shows the average value of sales weighted by assets, the arithmetic average value of sales, the median value of sales and the standard deviation of sales. All values are expressed in constant 1995 prices.

We observe the worst situation in companies sold to domestic individuals and employees. The drastic drop in sales (ranging from 30 to 60% for the whole period) for these groups shows that they experienced no positive effects of privatization during that period (see tables 6.11 and 6.12). This result is supported, moreover, by the less reliable profitability indicators discussed above, as well as by the fact that the highest percentage of companies which have entered bankruptcy or liquidation is found in the group

Table 6.10. Bankruptcy and liquidation

Leading Shareholder	Total	1995	1996	1997	1998	1999	2000
Domestic corporate investors	15	0	0	0	2	2	11
Foreign investors	4	0	0	0	2	2	0
Domestic individuals	10	0	0	0	4	3	3
Employees	0	0	0	0	0	0	0
Stock exchange	0	0	0	0	0	0	0
NIF companies	50	1	14	11	12	6	6
Total	**79**	**1**	**14**	**11**	**20**	**13**	**20**

Source: own calculations.

Table 6.11. Revenues from sales in 1995 prices (in millions of PLN)

Leading Shareholder	Acquired	Total	N	1995	1996	1997	1998	1999	99/'95
Domestic corporate investors	1996	8	8	279.3	341.2	308.4	270.5	254.7	0.912
	1997	26	26	885.2	909.4	995.4	1 064.9	849.2	0.959
	1998	43	42	1 077.9	1 059.3	1 003.1	979.6	991.0	0.919
	1999	29	29	1 374.0	1 347.5	1 363.6	1 257.7	1 087.7	0.792
	Total	*106*	*105*	*3 616.4*	*3,661.1*	*3,670.6*	*3,572.6*	*3,182.6*	*0.880*
Foreign investors	1996	6	6	644.6	633.4	644.8	647.6	599.8	0.930
	1997	16	16	981.3	1 083.9	933.8	1 019.1	935.2	0.953
	1998	19	18	1 617.7	1 483.7	1 403.7	1 216.9	1 144.5	0.708
	1999	8	8	918.7	819.3	809.2	715.9	694.3	0.756
	Total	*49*	*48*	*4 162.3*	*4,020.4*	*3,791.5*	*3,599.5*	*3,373.8*	*0.811*
Domestic individuals	1996	0	0	0.0	0.0	0.0	0.0	0.0	0.000
	1997	3	3	37.6	29.8	27.2	18.6	17.1	0.454
	1998	13	13	359.2	291.8	298.2	248.9	235.7	0.656
	1999	14	13	515.7	481.5	454.1	356.6	309.0	0.599
	Total	*30*	*29*	*912.5*	*803.1*	*779.5*	*624.2*	*561.9*	*0.616*
Employees	1996	0	0	0.0	0.0	0.0	0.0	0.0	0.000
	1997	2	2	64.7	45.6	43.6	37.1	33.8	0.522
	1998	5	5	136.7	127.8	99.6	78.5	66.9	0.489
	1999	6	6	138.0	156.7	144.5	97.3	56.0	0.406
	Total	*13*	*13*	*339.4*	*330.1*	*287.8*	*212.8*	*156.6*	*0.462*
Stock exchange	1996	0	0	0.0	0.0	0.0	0.0	0.0	0.000
	1997	15	15	879.5	813.0	801.9	733.1	649.8	0.739
	1998	11	11	376.4	356.0	346.8	309.3	270.7	0.719
	1999	2	2	66.0	64.2	89.4	81.2	99.0	1.499
	Total	*28*	*28*	*1,321.9*	*1,233.2*	*1,225.4*	*1,123.6*	*1,019.5*	*0.771*
NIF companies	*Total*	*212*	*206*	*9,506.0*	*9,229.5*	*9,100.1*	*7,811.2*	*7,026.7*	*0.739*
Total	***Total***	**438**	**429**	**19,859**	**19,274**	**18,855**	**16,944**	**15,321**	**0.772**

Source: own calculations.

of companies sold to domestic individuals (of 40 such companies, 10 – or 25% – entered bankruptcy or liquidation).

While the number of active, profitable firms in both these groups did not change significantly in the years 1995–1999 (and in companies purchased by employees actually rose slightly), we must remember that this profitability is often generated artificially as a result of debt reduction agreements with creditors. It is important to note that in the years 1998–1999 a large number of these companies had negative equity.

Domestic individuals and employees most often acquired small companies (see table 6.12), which were often in poor financial standing at the time of purchase. They often acquired those companies for low (or even symbolic) prices. As we noted above, regardless of how long these purchasers have been involved in the companies, they have proved unable to provide the restructuring and improvements those companies need (due, perhaps, to lack of capital and inexperience). As a result, these companies have drifted into declining performance. It is clear that pur-

Table 6.12. Average sales revenues in 1995 prices (weighted by assets)

Leading Shareholder	Acquired	Total	N	1995	1996	1997	1998	1999	99/'95
Domestic corporate investors	1996	8	8	46.4	61.8	56.0	57.3	54.2	1.168
	1997	26	26	46.1	47.5	51.3	55.7	37.2	0.805
	1998	43	42	40.3	39.3	35.2	34.0	35.5	0.881
	1999	29	29	128.4	118.5	117.9	106.3	75.4	0.587
	w.a.	*106*	*105*	*68.9*	*67.8*	*67.8*	*63.8*	*49.7*	*0.721*
	a.a.	*106*	*105*	*34.1*	*34.5*	*34.6*	*33.7*	*30.0*	*0.880*
	Median	*106*	*105*	*26.1*	*26.6*	*26.9*	*24.5*	*23.1*	*0.887*
	St.dev.	*106*	*105*	*41.8*	*40.2*	*38.8*	*40.1*	*29.2*	*0.697*
Foreign investors	1996	6	6	112.8	112.5	112.7	113.2	104.9	0.930
	1997	16	16	88.2	93.1	87.9	99.8	95.0	1.077
	1998	19	18	216.0	185.1	189.6	156.1	155.5	0.720
	1999	8	8	334.8	256.6	254.7	196.2	183.1	0.547
	w.a.	*49*	*48*	*188.1*	*160.1*	*157.0*	*139.7*	*131.0*	*0.696*
	a.a.	*49*	*48*	*84.9*	*82.0*	*77.4*	*73.5*	*68.9*	*0.811*
	Median	*49*	*48*	*63.1*	*58.2*	*51.8*	*53.9*	*43.7*	*0.692*
	St.dev.	*49*	*48*	*100.4*	*83.2*	*81.9*	*67.0*	*67.3*	*0.670*
Domestic individuals	1996	0	0	0.0	0.0	0.0	0.0	0.0	0.000
	1997	3	3	13.1	9.9	8.8	3.1	3.4	0.259
	1998	13	13	42.2	28.2	30.3	28.7	34.0	0.805
	1999	14	13	68.2	62.8	61.3	51.2	42.3	0.620
	w.a.	*30*	*29*	*57.4*	*50.2*	*50.0*	*42.9*	*38.5*	*0.671*
	a.a.	*30*	*29*	*30.4*	*26.8*	*26.0*	*20.8*	*18.7*	*0.616*
	Median	*30*	*29*	*19.6*	*17.7*	*17.7*	*12.5*	*11.6*	*0.589*
	St.dev.	*30*	*29*	*28.5*	*23.4*	*23.0*	*20.6*	*19.1*	*0.672*
Employees	1996	0	0	0.0	0.0	0.0	0.0	0.0	0.000
	1997	2	2	40.8	26.9	24.4	21.0	19.4	0.475
	1998	5	5	35.6	34.2	28.8	25.6	25.5	0.714
	1999	6	6	23.6	25.7	23.3	15.0	8.8	0.373
	w.a.	*13*	*13*	*30.2*	*29.4*	*25.7*	*20.2*	*17.0*	*0.562*
	a.a.	*13*	*13*	*26.1*	*25.4*	*22.1*	*16.4*	*12.0*	*0.462*
	Median	*13*	*13*	*21.5*	*21.9*	*21.1*	*14.6*	*9.6*	*0.445*
	St.dev.	*13*	*13*	*15.1*	*11.2*	*10.5*	*8.3*	*8.5*	*0.559*
Stock exchange	1996	0	0	0.0	0.0	0.0	0.0	0.0	0.000
	1997	15	15	103.2	88.3	91.1	86.7	74.7	0.724
	1998	11	11	49.4	42.8	39.2	34.2	30.5	0.618
	1999	2	2	34.8	33.2	39.4	41.9	53.8	1.547
	w.a.	*28*	*28*	*83.7*	*72.9*	*74.0*	*69.9*	*62.0*	*0.741*
	a.a.	*28*	*28*	*52.9*	*49.3*	*49.0*	*44.9*	*40.8*	*0.771*
	Median	*28*	*28*	*36.7*	*38.0*	*38.2*	*36.5*	*31.9*	*0.869*
	St.dev.	*28*	*28*	*40.9*	*33.6*	*33.7*	*31.1*	*28.3*	*0.694*
NIF companies	*w.a.*	*212*	*208*	*113.7*	*104.8*	*103.0*	*89.6*	*87.6*	*0.771*
	a.a.	*212*	*208*	*44.1*	*42.9*	*42.4*	*36.4*	*32.8*	*0.745*
	Median	*212*	*206*	*30.9*	*30.6*	*28.0*	*23.8*	*20.4*	*0.659*
	St.dev.	*212*	*206*	*66.1*	*54.8*	*53.8*	*42.6*	*40.7*	*0.615*
Total	w.a.	**438**	**429**	**113.7**	**103.4**	**103.6**	**93.3**	**87.7**	**0.771**
	a.a.	**438**	**429**	**45.4**	**44.1**	**43.1**	**38.8**	**35.1**	**0.772**
	Median	**438**	**429**	**30.3**	**30.5**	**29.1**	**25.3**	**22.4**	**0.739**
	St.dev.	**438**	**429**	**63.6**	**54.1**	**52.8**	**45.0**	**41.8**	**0.657**

w.a. - weighted average; a.a. - arithmetic average
Source: own calculations.

chase by outside investors does not necessarily lead to improvements in small, weak NIF portfolio companies.

As we see in tables 6.11 and 6.12, a significant decline was also experienced by companies which were not sold by the NIFs (i.e., the largest block of shares still belongs to the leading NIF) and by companies which were traded publicly (with the exception of two companies which were only listed in 1999). Although at first glance the status of these two groups of companies appears to be different, it turns out that from the point of view of ownership control they are in similar situations. The largest block of shares in a typical publicly traded company continues to be held by the company's leading NIF or is held by a large, dispersed group of shareholders. Thus, these companies continue to lack a strong outside investor who could bring them capital, know-how, etc. One important difference lies in the fact that the initial condition of publicly listed companies was much better than that of those that remained in the NIF portfolios. But, while the former group of companies were often the flagships of the NIF Program, performance deteriorated for them just as rapidly as it did in the latter group[95].

We observe the smallest deterioration in 1995–1999 sales performance in the groups of companies sold to domestic corporations and foreign investors in 1996 and 1997. In fact, for companies sold to domestic corporations in 1996 and to foreign investors in 1997, the weighted average of sales rose. The groups in which these surprisingly good indicators are found, are groups of companies which were sold relatively early. Companies sold in 1998 (especially to foreign investors) had much worse results. The worst figures are observed for companies sold latest – in 1999 (these figures are comparable with those for publicly traded companies and those which continue to be owned by the NIFs). These figures are, moreover, generally consistent with the results of the analysis of the profitability indicators discussed above.

While the latter analysis does not confirm the positive performance of companies sold in 1997–1998 to foreign investors, we have already noted the reasons why the reliability of profitability indicators is especially poor in the case of foreign investors, who very frequently use transfer pricing in order to artificially reduce their profits.

One could argue, on the other hand, that the NIFs' first action (in 1996–1997) was to sell the best companies in their portfolios to domestic corporations and foreign investors, and that in 1998–1999 they were therefore left with weaker firms. However, while this argument holds for companies sold in 1996–1997 to domestic corporations and foreign investors, it does not hold for companies sold to other types of investors during those years and at later dates. In particular, it does not hold for the "flagship" companies introduced to public trading with very good financial performance – as we have noted, that performance later deteriorated significantly, regardless of the year in which a given company was listed.

We seem, therefore, to have confirmed our hypothesis, that quick, efficiently organized privatization and secondary privatization help enterprises to maintain or improve their economic and market standing. The NIF Program, which in effect "privatized" the process of privatization of the portfolio companies, was a success to the extent that it led to the rapid sale of medium-sized and large companies to domestic corporations and foreign investors, which helped those companies to at least maintain their market position. However, the financial situation of small companies sold cheaply to domestic individuals and employees, companies sold relatively late (1998–1999), and companies listed on the stock exchange is much worse and can be ascribed to the lack of a strong investor over a relatively long period of time. Once again we see that rapid privatization is better than no privatization, and having a strong private owner is better than state or public ownership or listing on the stock exchange.

95 This was due, to some extent, to methodological factors. Publicly traded companies in which an outside investor acquired a majority block of shares (> 50%) were not placed in the group of publicly traded companies, but rather in the groups of companies acquired by investors, regardless of whether they continued to be publicly traded.

7. Conclusion

Our research on the factors behind, and effects of, the ownership evolution of the National Investment Funds (NIFs) and their portfolio companies was concentrated in four areas:

– The changes in the ownership structure of the funds and their concentration;

– The management of the funds (with a focus on corporate governance and management costs);

– The strategies of the funds, especially their privatization efforts;

– The changes in the ownership structure of the portfolio companies and the trends in their performance.

The analysis presented in the first part of this paper showed significant shifts in the ownership of the funds in the stage of secondary privatization and a strong tendency to ownership concentration of shareholdings. The share of the State Treasury and small investors decreased significantly, in contrast to the increasing share of institutional domestic and foreign investors and cross-holdings between the NIFs.

At the beginning of the NIF Program, the State Treasury (representing the owners of Certificates of Ownership – COs) was the main shareholder of the funds and fully controlled them. Its ownership share started to decrease when the process of exchanging COs for NIF shares began. The share of the State Treasury decreased significantly at the end of 1998, when the validity of the COs expired. As of the beginning of 1999, the state continued to hold only shares corresponding to certificates not redeemed by the citizens and shares reserved for remuneration of the management firms. Since that time, the ownership share of the state in the NIFs has continued to decrease and the Minister of the State Treasury has started to play a passive role in the funds. As a result, by the beginning of 2001 the state's share amounted to 13.4%.

The second important point is the decreasing share of small institutional and individual investors who own less than 5% of the shares in a single NIF and who at the beginning of the program owned 85% of the NIFs' shares. After the completion of the exchange process, at the end of 1998 these investors owned almost 50% of the shares of the NIFs. By the beginning of 2001, the share of small and individual investors had dropped to 41% – less than half of its original level.

While the share of the State Treasury and small investors in NIFs has been decreasing, the share of institutional and large investors has been rising. The share of institutional investors, starting at 0% in November 1995, jumped to 46% by the end of 2000. Analyzing the shareholdings of large investors, we have observed that foreign investors are the chief group responsible for the rapid increase in the involvement of large investors in the Program. In June 1998, foreign investors had only 2.5% of the shares of NIFs, but by January 2001, they had more than 26% of the shares, which constituted 57.5% of the total shareholdings of large investors. At the same time the shareholdings of Polish investors increased much less significantly. In June 1998, Polish investors held 4.1% of the NIF shares, and in January 2001, they held only 13.5%. Analyzing the shareholding of large investors, we also observe the increasing involvement of other NIFs. As of the end of 2000, almost 6% of NIF shares were owned by other NIFs. All the observed trends – the decreasing share of the State Treasury and small investors, the increasing share of institutional domestic and foreign investors and the growth of cross-holding relations among the NIFs – reflect progressing ownership concentration.

Over a period of 2.5 years (from June 1998 to December 2000) the C1 index (that is, the share of the single largest shareholder) increased from 5.41% to almost 24%, and the C3 index (the share of the three largest shareholders) increased from almost 7% to 42%. Our analysis thus demonstrates the impressive pace at which the ownership concentration of the NIFs is progressing. As of the end of 2000, just four years after NIFs' quotation on the Warsaw Stock Exchange and two years after the State Treasury lost its majority stakes in the NIFs, all NIFs achieved a concentration level[96] and ownership structure ensuring full and stable control over the funds. As a result, opportunities for new entries into the NIFs are practically limited to portfolio

[96] That is, one in which each of the three largest investors owns 30–40%.

investments. Any investors interested in acting as large and active players on the NIF share market will have to buy blocks of shares from other large investors who are already playing that role.

The main institutional investors on the NIF share market can be divided into two groups. The first group includes the largest institutional investors, who are interested in controlling the funds. The second group includes the most active portfolio investors. As of the end of 2000, the three most active investors were domestic financial groups (two banks and one insurance company) who had directly or indirectly gained control over 11 funds. The remaining four funds are controlled by foreign investors.

Analyzing the concentration process on the NIF market, we hypothesize that the main incentive driving it consisted in the profits that the funds' shareholders derived from management contracts between the management firms controlled by those shareholders and the funds themselves. The very high management fees paid to the management firms consumed a significant part of the funds' financial base, reaching as much as 50% of the entire market value of their assets during the years 1997–2000. Investors obtained the lucrative management contracts by first achieving shareholdings which gave them dominant position on the supervisory boards of the NIFs and subsequently directing the funds to sign such contracts. Additionally, the synergy effect from managing more than one fund allowed the management firms to maximize their profits.

In the second part of the paper, we focused our analysis on the management system of the funds, with special attention to corporate governance problems and actual costs of the services of management firms.

We found that the main problem connected with the management of the NIFs resulted from the very complicated corporate governance structure of the funds. The division of tasks, rights and obligations among the three management organs (management boards, supervisory boards, and contracted management firms) and the relations between them and the State Treasury have been unclear from the beginning. There was a confusing combination of subordinate and superior roles of the management firms in this system, but the main difficulties resulted from the ambiguous position of supervisory boards, which acted both as corporate management organs on the one hand and government representatives on the other. Additionally, the members of the NIFs' supervisory boards often tried to interfere in the day-to-day management of the funds. The State Treasury, in turn, was very active in influencing all participants in the early stages of the NIF Program (using both direct and indirect means for exercising such influence).

All these facts created a very confusing situation, in which the mutual relations among the three NIF management organs and the State Treasury had to be clarified day by day in practice, often by the use of political power. This in turn caused many conflicts and sometimes real battles, as well as disappointments all round. It is therefore not surprising that in such a situation each party tended first of all to secure its own benefits from participating in the program. Since late 1998, the privatization of firms belonging to NIFs began in earnest. As of January 1999, as already mentioned, the State Treasury no longer had majority power to control the funds' activities. This resulted in an acceleration of the privatization and consolidation process of the funds and changed their ownership structure, as we noted above. But the first three years after the funds' establishment were, to a large extent, lost for efficient secondary privatization, because mutual blocking mechanisms in the corporate governance structure of the funds hindered any decisive activity on the part of the fund management.

A second very important factor bearing on the overall effects of NIF privatization consists in the number and partially contradictory definition of tasks assigned to the funds. Including in these tasks both the economic and financial restructuring of portfolio companies and the privatization and raising of the value of the NIFs' assets made it difficult to realize all these goals simultaneously, at least in the short or medium term. There was political pressure from the State Treasury as well as from the trade unions of portfolio companies to avoid bankruptcy and liquidation of the companies. Often, there was also resistance from the portfolio companies' unions and management against radical restructuring. In effect, the restructuring activities of the funds, insofar as they extended beyond changes in the management boards of the portfolio companies, had a rather soft and defensive character. Restructuring activities of the funds were sometimes blocked by the State Treasury. The Ministry felt responsible for the performance of the program, and was especially interested in "restructuring before privatization." It therefore tried to set limits on some of the activities of the fund managers, which were directed toward quicker distribution of shares in portfolio companies. Long lasting battles between the funds and the State Treasury on the choice of "proper" strategies were endemic in the early stage of the program, when the majority of shares were in the hands of the state.

Finally, it turned out that the NIF managers strongly preferred secondary privatization (i.e., sale to other investors) as the main method of restructuring the portfolio companies. On the basis of our research, we suspect that other kinds of restructuring were neither available in this concrete systemic context nor desirable. The impossibility was due to the huge needs of the portfolio companies and the lack of financial means and industrial restructuring know-how (the lack of "enterprise doctors") at the fund level. And it was probably not desirable due to the doubtful quality of the investment decisions which would likely be made by players so strongly driven by political forces.

One of the main research questions, to which we are at this point only able to provide a partial answer, is the extent to which the construction of this privatization scheme influenced the economic performance of the enterprises privatized thereby. At this stage, it seems that the initial ownership structure of the NIFs, the associated corporate governance regime, the financial situation of the funds and their regulatory environment have not motivated fund management to engage in restructuring activities in enterprises, but have rather encouraged sales and liquidations. This tendency has been strengthened by the management incentive system existing at the NIF level. At the same time, strong government influence has hindered faster privatization of the NIF portfolio companies and the consolidation activities of the funds. The internal inconsistency of the NIF system, together with the unfavorable conditions on the capital market, unfavorable tax regulations and the activist stance of the State Treasury, narrowed the scope of possible activities of the funds and might be among the main reasons that this program has not lived up to expectations.

Analyzing the costs of management firms services, we found that their remuneration was from the beginning set at a very high level, unjustified by the value of managed assets. Additionally, it was clear that the fixed element of the total fee (the annual flat cash fee) was too large relative to the remuneration for financial performance (yearly and final), potentially distorting the incentive system for fund managers. The actual costs of management, moreover, far exceeded all expectations. As of the end of 2000, the total amount spent on management services in the NIFs exceeded the huge sum of 756 million PLN, equaling 42.4% of the entire capitalization of the funds. By the end of 2000, for example, one NIF had a ratio of costs to capitalization of 91.3%; in contrast, the only fund in which this ratio did not exceed 15% was the only NIF that was not run by a management firm. Moreover, the relative significance of the fees for financial performance in the entire remuneration of the fund managers was remarkably low.

This shows that the use of contracted management companies was very expensive business for the program[97]. Moreover, management fees were not adjusted downward to reflect the decline in actual costs to the management firms as their portfolios decreased in size. Similarly, the consolidation of funds, which placed more than one fund under the supervision of one management firm, did not influence the amount of the fee[98]. Analyzing the ratio of management costs to capitalization of the funds, we see clearly that the management costs of the funds may soon consume the entire value of their assets. The general conclusion is quite obvious – unless there is an unusual growth in the price of fund shares or a radical reduction in managers' fees, the management costs will exceed the market value of the managed property. In this situation it is very likely that the NIF Program will be concluded sooner than planned (in 2005).

The next question that we tried to answer was whether the NIF Program accelerated the privatization process in Poland. In order to do this we compared the privatization efficiency – i.e., the quantitative privatization results – of the National Investment Funds (NIFs) and the Ministry of the State Treasury. The "privatization efficiency" measure used for both these institutions was the ratio of companies privatized in each year by the NIFs and the ministry, respectively, to the pool of companies available for privatization and at their disposal. The type of investor to whom companies were sold was taken into consideration. It turned out that the privatization efficiency (or speed) is much higher at the funds than at the ministry. We also showed that NIF efficiency, both in absolute terms and relative to MST privatization efficiency, reached a peak in 1998. Since 1999, in which privatization and bankruptcy exceeded the critical amount equal to half of the companies held by the NIFs, their privatization efficiency has been decreasing. We can, moreover, hypothesize that privatization will continue to slow down over the next few years due to the aforementioned factors – i.e., the unwillingness of the funds to liquidate quickly, the continuation of restructuring strategies and the continually decreasing number of companies available for privatization. In conclusion, we can say that while the introduction of the NIF program made it possible to accelerate the privatization of state-owned companies considerably for a few years, internal barriers that appeared in the program because of its incentive system have slowed down this pace again.

In the next part of our paper we looked at the reaction of the market prices of NIFs' shares to the differences in the privatization activities of the funds. The analysis of the correlation shows a very strong positive relationship between the real price of a fund share on the one hand and the number of companies sold to foreign investors. There is also a positive correlation between the real price and the number of companies quoted on the public market, the number of companies sold to domestic investors and the total privatization activity of funds. We conclude, therefore, that the capital market places a premium on funds whose privatization strategies put special emphasis on selling companies to foreign investors and, to a lesser extent, selling companies to domestic investors and quoting them on the public markets. Finally, it seems that the capital market rewards a high rate of privatization activity, which is reflected in the higher prices of the funds' shares.

With respect to the evolution of ownership structure of the NIF portfolio companies themselves, we found that as of December 2000, over half of these companies (278) have

[97] Although, in the case of several management firms, strong efforts undertaken to privatize a large number of companies may explain their management costs.

[98] The fund consolidation is an indication that the initial number of funds was too high and economically unjustified.

found new investors, including companies quoted on the stock exchange (27) or over-the-counter market (12). In addition, 78 companies were under bankruptcy or liquidation procedures (of which nine have already been liquidated at the time of writing). In all, secondary privatization has affected, in our estimation, 330 firms. Some of them have mixed structures; for instance, part of the shares of a company with an active shareholder may be traded on the stock exchange. In 57 firms, foreign investors have appeared. In 89 companies the State Treasury share has been reduced to zero. Each NIF sold between 5 and 23 of its portfolio companies to investors. Of the 278 NIF companies transferred to date, 91 were sold in 1999 and 2000. On the whole, therefore, we have not observed a significant acceleration in this area. All categories of investors participating in other types of privatization in Poland are represented among the new owners of the NIF companies. The most numerous new owners are domestic strategic investors (large domestic companies), who became shareholders in over 134 companies. The next, most numerous category of new owners consists of foreign investors, who have taken over 57 firms. Individual private owners took over 48 firms. Employees became shareholders in 14 NIF companies[99]. Finally, 25 companies were publicly quoted (on the stock exchange and the over-the-counter market). Among these publicly traded companies, 16 companies also have leading shareholders.

To conclude this section, we turned our attention to a more detailed examination of the ownership structure of the NIF portfolio companies. According to these data, the concentration in the companies began to increase, more slowly than in the funds, but remarkably. By the year 2000, the largest shareholders were in near-absolute control in about one third of the companies.

With respect to the concentration of ownership stakes, it is striking that, on the average, most strategic investors have gained absolute control (more than 50%) of the firms' equity. Financial institutions and other NIFs have, on average, about 33–35% of shares. The employees, who were given special privileges in the Polish mass privatization, have acquired control of only a small number of companies. These numbers and tendencies go a long way to meeting the initial objectives of the program and are in sharp contrast with the overall negative assessment of the NIF scheme. It seems likely that the character of the secondary ownership changes in the NIF companies provides some promise for the development of their future potential. The structure of ownership emerging in these companies is different from the structure that had been created in the pool of firms privatized by other methods in Poland, since in most cases new strategic investors, who can be future agents of changes, have appeared.

The final part of our paper deals with the economic performance of NIF portfolio companies. We report that the economic and financial performance of the NIF companies deteriorated in the early stage of the program because of its delay and the lack of restructuring activities during the waiting phase. This resulted in a very sharp decline of all economic and financial indicators of the whole NIF sector. Other systemic reasons that were discussed above seem to have strengthened this tendency. We discussed selected economic and financial indicators for the entire group of NIF portfolio companies from 1991 to 1999, in comparison with other groups of Polish firms, categorized by the character of their ownership. This analysis gives little grounds for optimism. In 1995, profitability fell rapidly, and the NIF group became unprofitable. Their performance continued to deteriorate in each subsequent year (with the exception of 1997).

In 1999 this group of Polish enterprises had the worst profitability of those presented in the analysis. Net profitability started to decrease for the NIF companies in 1995 and never recovered. Much better results were achieved in 1999 by other groups of privatized enterprises, and even by State Treasury companies. It is clear that the capital and/or strategies of other investors were more effective in generating improvements in companies than were the NIFs. The percentage of NIF firms achieving profits was also one of the lowest, and was systematically declining. The entire financial analysis of NIF companies in comparison with other Polish companies leads us to the conclusion that control by the funds has not caused an improvement in the performance of the portfolio companies which are in weak condition.

In the final section of our paper we investigated the financial situation of NIF companies that have undergone secondary ownership changes (i.e., have been sold to new owners), using a database on individual companies that we compiled. We divided the NIF companies into groups by the type of new owners emerging as a result of secondary ownership changes:

– domestic and foreign strategic investors,
– private individuals,
– employees,
– dispersed ownership (companies quoted on the stock exchange), and
– those companies in which (a) National Investment Fund(s) continues to be the main owner.

We additionally divided the firms that had undergone secondary ownership changes into groups by the date of

[99] Given the fact that investors from this group are generally unable to provide the capital support necessary to these weak companies, the fact that the participation of employee-owned companies in the secondary privatization process has been so limited should be seen as fortunate.

their sale, in order to take into account the length of the period of influence of the new owners on the enterprises. In analyzing the economic indicators and financial ratios we also took into account the number of the firms that have undergone bankruptcy or liquidation as a measure of the failures of different types of owners.

Because of methodological problems described in the paper, it was very difficult to find significant results from this investigation. In a group of companies as large and diversified as the NIF portfolio companies, given these methodological problems, the best measure of performance appears to be sales. The ratio of sales in 1999 to sales in 1995 allowed us to draw conclusions concerning the change in the companies' financial and market situation during that period. We observed the worst situation in companies sold to domestic individuals and employees. The drastic drop in sales (ranging from 30 to 60% for the whole period) for these groups shows that they experienced no positive effects of privatization during that period. This result is supported by the fact that the highest percentage of companies which have entered bankruptcy or liquidation is found in the group of companies sold to domestic individuals (of 40 such companies, 10 – or 25% – entered bankruptcy or liquidation).

A significant decline was also experienced by companies which were not sold by the NIFs (i.e., where the largest block of shares still belongs to the leading NIF) and by companies which were traded publicly (with the exception of two companies which were only listed in 1999). Although at first glance the status of these two groups of companies appears to be different, it turns out that from the point of view of ownership control they are in similar situations. The largest block of shares in a typical publicly traded company continues to be held by the company's leading NIF or is held by a large, dispersed group of shareholders. Thus, these companies continue to lack a strong outside investor who could bring them capital, know-how, etc. We observed the smallest deterioration in 1995–1999 sales performance in the groups of companies sold to domestic corporations and foreign investors in 1996 and 1997. The groups in which these surprisingly good indicators are found are those which were sold relatively early. Companies sold in 1998 (especially to foreign investors) had much worse results. The worst figures are observed for companies sold latest – in 1999 (these figures are comparable with those for publicly traded companies and those which continue to be owned by the NIFs). We seem, therefore, to have confirmed our hypothesis, that quick, efficiently organized privatization and secondary privatization help enterprises to maintain or improve their economic and market standing. The NIF Program, which in effect "privatized" the process of privatization of the portfolio companies, was a success to the extent that it led to the rapid sale of medium-sized and large companies to domestic corporations and foreign investors, which helped those companies to at least maintain their market position. However, the financial situation of small companies sold cheaply to domestic individuals and employees, companies sold relatively late (1998–1999), and companies listed on the stock exchange is much worse and can be ascribed to the lack of a strong investor over a relatively long period of time. The results of this study seen to confirm the hypothesis that the pace of secondary privatization (time efficiency) and the quality of the investors taking part in it may have more influence on its effects than the level of concentration of ownership.

Appendix

Table 1A. Concentration indexes C1 and C3 for all National Investment Funds

	30.6.1998	**30.9.1998**	**31.12.1998**	**31.3.1999**	**30.6.1999**	**30.9.1999**
C1	5.41%	9.18%	10.20%	14.23%	16.62%	19.20%
C3	6.97%	16.24%	20.94%	28.67%	33.34%	34.97%

	31.12.1999	**31 .3.2000**	**30.6.2000**	**30.9.2000**	**31.12.2000**
C1	19.26%	22.39%	23.10%	24.67%	23.86%
C3	36.41%	38.68%	40.02%	42.05%	41.84%

Source: The Polish Security and Exchange Commission (KPWiG), Polish Press Agency (PAP), Notoria Service and own calculations.

Table 2A. Concentration indexes C1 and C3 for all 15 National Investment Funds separately as of the end of 1998, 1999 and 2000

%	NIF I	NIF II	NIF III	NIF IV	NIF V	NIF VI	NIF VII	NIF VIII
C1								
1998	10.01	13.91	20.15	5.27	5.97	6.47	8.57	7.73
1999	11.58	19.75	32.00	21.05	14.77	24.67	8.72	19.80
2000	16.67	20.20	32.76	21.34	14.97	24.79	17.62	21.88
C3								
1998	21.59	22.03	31.93	15.48	16.76	17.64	19.38	13.72
1999	24.86	27.13	43.13	44.79	36.34	50.91	25.47	35.82
2000	37.08	42.06	37.65	45.39	36.83	56.34	39.08	43.08

%	NIF IX	NIF X	NIF XI	NIF XII	NIF XIII	NIF XIV	NIF XV
C1							
1998	19.33	7.88	15.33	9.09	9.68	8.01	9.71
1999	21.63	8.73	32.00	14.62	9.78	11.29	30.36
2000	21.71	19.33	-	14.62	14.32	23.37	50.73
C3							
1998	39.58	20.17	25.36	21.97	22.71	21.12	18.05
1999	42.37	22.73	42.64	33.68	28.70	29.66	45.35
2000	42.12	42.77	-	31.68	34.01	42.31	60.94

Source: The Polish Security and Exchange Commission (KPWiG), Polish Press Agency (PAP), Notoria Service and own calculations.

Table 3A. Main institutional investors in NIFs as of the end of 1998 and 2000

%	NIF I		NIF II		NIF III		NIF IV		NIF V		NIF VI		NIF VII		NIF VIII	
	98	00	98	00	98	00	98	00	98	00	98	00	98	00	98	00
BRE	10.0	14.2	–	–	–	–	–	–	–	15.0	–	–	–	–	–	–
Deusche Bank	–	16.7	–	11.9	–	–	–	6.6	–	–	–	–	–	10.0	–	5.1
PZU	–	–	13.9	20.2	5.5	–	5.1	21.3	5.1	–	5.05	–	–	–	–	–
Pekao	–	–	–	–	20.2	32.8	–	–	–	–	–	–	–	–	–	–
Raiffeisen	–	–	–	–	–	–	5.1	14.6	–	–	–	–	–	–	–	–
AIB	–	–	–	–	–	–	–	–	–	–	–	21.6	–	–	–	–
Copernicus	–	–	–	–	–	–	–	–	–	–	6.5	10.0	–	–	–	10.0
NIF Fund Holdings	–	–	–	–	–	–	–	–	–	–	5.6	24.8	–	–	7.7	21.9
Everest Capital	–	–	–	–	–	–	–	–	–	–	–	–	–	7.1	–	–
Arnhold & Bleichroeder	2.6	5.1	–	–	–	4.9	–	–	–	–	–	–	8.6	5.3	–	–
Poland Opportunity Fund	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Kredyt Bank PBI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
CS First Boston	5.3	–	–	–	6.3	–	5.3	–	5.3	–	–	–	5.5	–	–	–
Bank Austria	–	5.6	–	–	–	–	–	–	–	–	–	–	–	–	–	–

%	NIF IX		NIF X		NIF XI	NIF XII		NIF XIII		NIF XIV		NIF XV	
	98	00	98	00	98	98	00	98	00	98	00	98	00
BRE	–	–	–	–	–	–	–	9.7	9.8	–	–	–	–
Deusche Bank	–	–	–	10.6	–	–	–	–	5.1	–	9.7	–	–
PZU	19.3	21.7	5.2	9.9	10.0	–	–	5.2	–	5.2	–	8.3	–
Pekao	14.9	15.3	–	–	15.3	–	–	–	–	–	–	–	–
Raiffeisen	–	–	–	–	–	–	–	–	–	–	–	–	–
AIB	–	–	–	–	–	–	–	–	–	–	–	–	–
Copernicus	–	–	–	–	–	7.8	10.0	–	–	–	–	–	–
NIF Fund Holdings	–	–	6.1	6.2	–	5.1	14.6	–	–	–	–	–	–
Everest Capital	–	–	–	19.3	–	–	–	–	14.3	6.9	23.4	–	–
Arnhold & Bleichroeder	–	–	7.9	–	–	–	–	–	–	–	–	–	–
Poland Opportunity Fund	–	–	5.1	12.9	–	–	–	–	–	5.1	9.3	–	–
Kredyt Bank PBI	–	–	–	–	–	9.1	7.1	–	–	–	–	–	–
CS First Boston	5.3	4.8	6.2	–	–	–	–	7.1	–	8.0	–	–	–
Bank Austria	–	–	–	–	–	–	–	–	–	–	–	9.7	53.7

Source: The Polish Security and Exchange Commission (KPWiG), Polish Press Agency (PAP), Notoria Service and own calculations.

Table 4A. Shares controlled directly or indirectly by PZU S.A. as of January 2001 (without the shares of the State Treasury)

	NIF II	**NIF IV**	**NIF VII**	**NIF IX**	**NIF X**
PZU S.A. and PZU Zycie S.A.	20.20%	21.34%	<5%	21.71%	9.93%
Wood & Company	-	-	17.62	-	-
Deutsche Bank	11.92%	6.35%	9.98%	-	10.58%
Arnhold & Bleichroeder	-	-	5.26%	-	-
NIF IV - Progress	6.71%	-	-	5.14%	-
NIF IX	9.94%	9.48%	-	-	-
NIF X	-	-	-	8.84%	-
TOTAL	**48.77%**	**37.17%**	**32.86%**	**35.69%**	**20.51%**

Source: The Polish Security and Exchange Commission (KPWiG).

Table 5A. The main shareholders of NIFs controlled by BRE Bank and Everest Capital in January 2001

	NIF I	NIF V	NIF XIII	NIF XIV
BRE S.A.	14.22%	14.97%	9.78%	-
Everest Capital	-	-	14.32%	23.37%
Arnhold and S. Bleichroeder, Inc	5.11%	-	-	-
Deutsche Bank	16.47%	-	5.11%	9.65%
Poland Opportunity Fund	-	-	-	9.27%
NIF I	-	5.56%	5.11%	-
NIF V Victoria	6.19%	-	9.91%	-
NIF XIII Fortuna	5.69%	11.60%	-	-
State Treasury	12.47%	15.00%	16.34%	15.00%

Source: The Polish Security and Exchange Commission (KPWiG).

Table 6A. The main shareholders of NIFs controlled by BRE Bank and Everest Capital in January 2000

	I NIF	V NIF	VII NIF	X NIF	XIII NIF	XIV NIF
BRE S.A.	11.58%	14.77%	-	-	9.78%	
Everest Capital	-	-	-	19.33%	14.32%	7.01%
The Baupost Group	7.64%	-	-	-	-6.09%	-
Credit Suisse First Boston Nominees	5.39%	5.33%	8.45%	6.37%	9.26%	9.20%
Arnhold and S. Bleichroeder, Inc.	5.05%	-	8.57%	-	-	-
Deutsche Bank	5.64%	-	-	5.36%	-	11.29%
Poland Opportunity Fund	-	-	-	8.73%	-	9.17
NIF Funds Holding	-	-	-	6.15%	-	-
NIF I	-	5.49%	-	-	-	-
NIF V Victoria	-	-	-	-	9.66%	-
NIF VII	-	-	-	5.03%	-	-
NIF X Foksal	-	-	8.72%	-	-	-
NIF XIII Fortuna	-	11.45%	-	-	-	-
NIF XIV Zachodni	-	-	5.62%	7.63%	-	-
State Treasury	16.00%	16.12%	16.12%	16.12%	16.12%	15.00%

Source: The Polish Security and Exchange Commission (KPWiG).

Table 7A. The main shareholders of NIFs controlled by Pekao S.A. as of the end of 1998, 1999, 2000*

	1998	1999	1998	1999	2000
	NIF III		NIF XI		Jupiter
Arnhold and S. Bleichroeder, Inc.	0.00%	5.32%	0.00%	5.53%	4.89%
PEKAO S.A.	20.15%	32.00%	15.33%	32.00%	32.76%
Credit Suisse First Boston Nominees	6.29%	0.00%	0.00%	0.00%	0.00%
PZU S.A.+ PZU Zycie	5.49%	0.00%	10.03%	0.00%	0.00%
The Baupost Group	5.26%	6.81%	0.00%	0.00%	0.00%

Source: The Polish Security and Exchange Commission (KPWiG).
* The data for 1998 and 1999 concern NIF III and XI. The data for 2000 concern NIF Jupiter, which was created in 2000 by a merger of NIF III and XI.

Table 8A. The main shareholders of NIFs XV and VI as of the end of 1998, 1999, 2000

	1998	1999	2000
NIF XV- Hetman			
AGK Consulting	0.00%	0.00%	7.21%
Bank Austria	9.71%	30.36%	53.73%
PZU Zycie + PZU S.A.	8.34%	14.99%	0.00%
NIF VI- Magna			
AIB Capital Markets	0.00%	7.10%	21.57%
Copernicus Invst.	6.47%	9.85%	9.98%
WBK S.A.	5.59%	16.39%	0.00%
NIF Fund Holding PCC	5.58%	24.67%	24.79%

Source: The Polish Security and Exchange Commission (KPWiG).

Table 9A. The main shareholders of VIII and XII NIFs as of the end of 1998, 1999, 2000

	1998	1999	2000	1998	1999	2000
	NIF VIII- Octava			NIF XII- Piast		
Westgate International	0.00%	0.00%	11.23%	0.00%	0.00%	0.00%
Copernicus	0.00%	9.97%	9.97%	7.78%	9.97%	9.97%
Deutche Bank	0.00%	5.06%	5.06%	0.00%	0.00%	0.00%
Baupost Group LLC, Cambridge	5.99%	6.05%	0.00%	0.00%	0.00%	0.00%
NIF Fund Holdings PCC	7.73%	19.80%	21.88%	5.10%	14.62%	14.62%
Kredyt Bank PBI SA	0.00%	0.00%	0.00%	9.09%	9.09%	7.09%

Source: The Polish Security and Exchange Commission (KPWiG).

Table 10A. Management firms selected by the Ministry of Ownership Transformation and managing NIFs as of the end of 2000

NIF	Chosen management firm approved by the Minister of Ownership Transformation	The management firm as of the end of 2000
NIF I	BRE/ Giro Credit Management: - BRE (PL) - Giro Credit (Austria)	BRE Private Equity Management Group: - BRE - Cresco Management Group - Everest Capital
NIF II	Hevelius Management: - UNP Int (PL) - Bank Gdański (PL) - Murray Johnstone (GB)	PZU NIF Management: - PZU S.A. (PL) - PZU Zycie S.A. (PL)
NIF III JUPITER	Trinity Management: - Barclays de Zoete Wedd (GB) - Bank Pekao S.A. (PL) - Company Assistance (PL)	Trinity Management: - Bank Pekao S.A. (PL) - Company Assistance (PL)
NIF IV	Konsorcjum Raiffeisen Atkins: - Raiffaisen (Austria) - WS Atkins (GB)	PZU NIF Management: - PZU S.A. (PL) - PZU Zycie S.A. (PL)
NIF V VICTORIA	Polskie Towarzystwo Prywatyzacyjno- Kleinwort Benson: - PBR (PL) - Kleinwort Benson (GB)	BRE Private Equity Management Group: - BRE - Cresco Management Group - Everest Capital
NIF VI	Chase Gemina Polska: - Chase Gemina (USA/I) - WBK (PL) - Nicom Consulting (PL)	AIB WBK Found: - WBK - Nicom Consulting - AIB
NIF VII	Kazimierz Wielki Fund Management: - Lazard Freres (FR) - GICC Capital (USA) - BGK	None
NIF VIII	KP Konsorcjum: - Bank Handlowy (PL) - Yourk Trust (GB) - Kennedy Associates (USA)	KP Konsorcjum: - Bank Handlowy (PL) - Yourk Trust (GB) - Kennedy Associates (USA)
NIF IX	None	PZU NIF Management: - PZU S.A. (PL) - PZU Zycie S.A. (PL)
NIF X	Fidea Management: - Banque Arjil (FR) - ARP (PL) - WGC (PL)	None
NIF XI	KN Wasserstein: - KNK Finance and Invest - Wasserstein Perrella	Trinity Management: - Bank Pekao S.A. (PL) - Company Assistance (PL)
NIF XII	BNP- PBI Eurofund Management: - BNP (FR) - PBI (PL)	KP Konsorcjum: - Bank Handlowy (PL) - Yourk Trust (GB) - Kennedy Associates (USA)
NIF XIII	Yamaichi Regent Special: - Yamaichi Intr. (GB) - Regent Pacific (GB)	BRE Private Equity Management Group: - BRE - Cresco Management Group - Everest Capital
NIF XIV	International Westfund Holdings: - Bank Zachodni (PL) - Central European Trust - Credit commercial de France	BRE Private Equity Management Group: - BRE - Cresco Management Group - Everest Capital
NIF XV	Creditanstalt- SCG Investment Fund Manag.: - Creditanstalt (A) - St. Gallen Consulting (H)	CA IB Management: - Creditanstalt (A)

Source: CASE

Table 11A. The management costs of the management firms*

NIF	1995	1996	1997	1998	1999	2000	Sum	Fees for financial perfor-mance	Global fee
NIF I	3,435.1	8,943.1	10,197.0	11,018.0	12,154.0	8,318.0	54,065.2	8,330.4	62,395.6
NIF II	3,701.1	8,059.9	861.4	1,501.0	4,103.0	6,829.0	25,055.4	4,150.0	29,205.4
Jupiter	7,130.4	14,803.0	11,732.0	11,990.0	15,474.0	11,134.0	72,263.4	20,577.9	92,841.3
NIF IV	2,615.5	7,238.0	9,003.9	9,066.0	2,633.0	6,880.0	37,436.4	9,989.1	47,425.5
NIF V	4,620.8	11,866.4	13,041.0	10,823.0	6,286.0	7,821.0	54,458.2	6,131.4	60,589.6
NIF VI	3,422.0	8,590.4	9,842.5	10,129.0	11,256.0	10,544.0	53,783.9	10,910.3	64,694.2
NIF VII	3,185.8	8,280.4	9,922.0	4,709.0	4,714.0	5,341.0	36,152.2	5,205.2	41,357.4
NIF VIII	2,364.6	6,000.4	7,084.0	7,337.0	8,567.0	9,038.0	40,391.0	18,192.6	58,583.6
NIF IX	816.0	1,510.3	734.0	486.0	4,956.0	6,739.0	15,241.3	4,896.1	20,137.4
NIF X	1,492.0	4,701.0	6,094.0	2,678.0	4,743.0	5,493.0	25,201.0	7,326.2	32,527.2
NIF XII	3,747.4	8,216.9	10,373.0	11,639.0	11,732.0	8,912.0	54,620.3	5,427.6	60,047.9
NIF XIII	1,598.9	7,866.5	10,117.0	11,454.0	6,376.0	8,115.0	45,527.4	7,965.5	53,492.9
NIF XIV	2,731.0	7,260.9	9,229.1	8,833.0	7,702.0	7,313.0	43,069.0	10,315.2	53,384.2
NIF XV	3,308.3	9,564.4	11,850.0	13,963.0	18,749.0	12,974.0	70,408.7	9,442.6	79,851.3
Total	44,168.9	112,901.6	120,080.9	115,626.0	119,445.0	115,451.0	627,673.4	128,860.1	756,533.5

Source: CASE.

*These costs include the NIFs' costs of financial advising in the years 1995–2000 and the annual and final performance fees for financial results owed to management firms for the years 1995–2000.

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