
ARGUMENTA OECONOMICA

3 • 1996

Wrocław University of Economics
Wrocław 1996

TABLES OF CONTENTS

INAUGURAL LECTURE FOR OPENING THE ACADEMIC YEAR 1996/1997

Zbigniew Przybyła

EURO-REGIONALIZATION: PROCESSES IN POLAND AND THE ROLE OF THE WROCLAW UNIVERSITY OF ECONOMICS IN TRANSBORDER COOPERATION	7
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I ARTICLES

Anna Zielińska-Głębocka

UNEMPLOYMENT IN THE EUROPEAN COMMUNITY IN THE LIGHT OF STRUCTURAL CHANGES	13
--	----

Danuta Strahl, Michał Montygierd-Łoyba

SOME REMARKS ON TRANSFORMATION OF EMPLOYMENT DISTRIBUTION IN RELATION TO A PATTERN ECONOMY	37
---	----

Jerzy Rymarczyk

PROTECTION OF THE EC AGRICULTURAL MARKET VS. THE AGRICULTURAL AGREEMENT OF THE URUGUAY GATT ROUND	45
--	----

Krzysztof Jajuga, Danuta Strahl

STRUCTURAL TRANSFORMATION MODEL FOR POLAND UNTIL YEAR 2000	61
--	----

Bożena Klimczak

FINANCE IN LIGHT OF ETHICS	67
--------------------------------------	----

Aldona Kamela-Sowińska

GOODWILL UNDER THE NEW POLISH ACCOUNTING LAW	79
--	----

Mirosława Kwiecień

THE FIRST POLISH ACCOUNTANCY LAW VS. INTERNATIONAL ACCOUNTING STANDARDS	87
--	----

Grażyna Osbert-Pociecha

DIVESTITURE – STRATEGIC RECOMMENDATIONS FOR POLISH ENTERPRISES IN THE PROCESS OF ECONOMIC TRANSFORMATION	95
---	----

Kazimierz Perechuda

STRATEGIC MANAGEMENT OF THE BUSINESS PROCESS REENGINEERING	103
--	-----

<i>Vesna Žabkar, Janez Prašnikar</i> GRUNDLAGEN DER ERFOLGREICHEN MARKETINGSTRATEGIEN FUER KLEINBETRIEBE IN SLOWENIEN	111
<i>Ewa Konarzewska-Gubala</i> SUPPORTING AN EFFECTIVE PERFORMANCE APPRAISAL SYSTEM	123
<i>Jacenta Łucewicz</i> ORGANIZATIONAL CULTURE AS A DETERMINANT OF MANAGERS' AT- TITUDES TOWARDS SUCCESS	137
<i>Grzegorz Belz</i> REMARKS ON THE PROCESS OF MANAGING CHANGE IN ORGANIZATION	145
<i>Halina Towarnicka</i> INVESTMENT STRATEGY OF INDUSTRIAL ENTERPRISES DURING THE ECONOMIC TRANSFORMATION	157
<i>Paweł Dittmann</i> SOME REMARKS ABOUT ESTIMATING PARAMETERS OF SEASONAL MO- DELS	165
<i>Józef Dziechciarz, Marek Walesiak</i> MODELLING THE COLLEGE STUDENT CHOICE VIA CONJOINT ANALYSIS	175

II. REVIEWS AND NOTES

Ryszard Antoniewicz, Andrzej Misztal: MATEMATYKA DLA STUDENTÓW EKO- NOMII. WYKŁADY Z ĆWICZENIAMI [MATHEMATICS FOR STUDENTS OF ECONOMICS. LECTURES AND PRACTICE MATERIALS]. Wrocław 1995. (<i>Tadeusz Stanisław</i>)	185
Ryszard Bról (ed.): GOSPODARKA LOKALNA [LOCAL ECONOMY]. Wrocław 1995. (<i>Eugeniusz Wojciechowski</i>)	186
Henryk Jagoda, Ber Haus: HOLDING: ORGANIZACJA I FUNKCJONOWANIE [HOLDING COMPANIES: ORGANIZATION AND FUNCTIONING]. Wrocław 1995. (<i>Wiesław M. Grudzewski</i>)	187
Stanisław Kiełczewski: POLITYKA PRZEMYSŁOWA POLSKI W OKRESIE TRANS- FORMACJI SYSTEMOWEJ [POLISH INDUSTRIAL POLICY IN THE PERIOD OF SYSTEM TRANSFORMATION]. Wrocław 1995. (<i>Jan Wojewnik</i>)	188
Mirosława Klamut: EWOLUCJA STRUKTURY GOSPODARCZEJ W KRAJACH WYSOKO ROZWIĘTYCH [EVOLUTION OF AN ECONOMIC STRUCTURE IN HIGHLY DEVELOPED COUNTRIES]. Wrocław 1995. (<i>Antoni Fajferek</i>) . .	189

Antoni Smoluk: METODY NUMERYCZNE. ZADANIA [NUMERICAL METHODS. PROBLEMS]. Wrocław 1995. (<i>Tadeusz Stanisławski</i>)	190
Jerzy Sokołowski: ZARZĄDZANIE PRZEZ PODATKI [MANAGEMENT THROUGH TAXATION]. Warszawa 1995. (<i>Andrzej Kierczyński</i>)	191
III. HABILITATION MONOGRAPHS (1995–1996) (summaries)	193
IV. CHRONICLE (1995–1996)	197

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DIVESTITURE — STRATEGIC RECOMMENDATIONS FOR POLISH ENTERPRISES IN THE PROCESS OF ECONOMIC TRANSFORMATION

The article presents considerations and recommendations for enterprise restructuring in the background of the Polish economy transformation process.

The burning need of using divestiture as a restructuring tool was indicated, and at the same time the low interest of Polish enterprises in divestiture was noticed.

Identifying the idea and specific character of divestiture, the need to link corporate divestiture with the structural policy of the State as well as conditioning the efficiency of transformation process and development and innovation in the entire economy.

1. INTRODUCTION

The process of Polish economy transformation, enforcing the restructuring of enterprises, revealed the absence — both in practice and in literature of the subject (of corporate management problems) — of the phenomenon of divestiture.

Seemingly, divestiture is, just like investment, an aspect of business activity, which significantly promotes innovative and further development of each enterprise and the whole economy.

The aim of this paper is to present divestiture as an expedient and desirable restructuring tool and the inevitable option of strategic development.

2. SYSTEM TRANSFORMATION OF THE POLISH ECONOMY

The process of system transformation initiated in Poland at the beginning of 1990 includes structural, qualitative and quantitative changes in all aspects of human activities, i.e. social, political and economic. It brings about system transformation, along with the replacment of the ineffective state-owned economic system with that of a market economy.

The implementation of the free market mechanism of asset allocation in economy and the division of fields, sectors and branches into developing,

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stagnant and declining, conditions the increase of economic efficiency and raises the living standard of the people.

The spontaneous market mechanism, business initiative and competition help modernize economic structures and are factors which significantly influence changes in production structure, i.e. the structure of produced goods and services, as well as the structure of technologies used.

The above facts became the considerations for the choice of option for realization of the economic program within the process of transformation. It was assumed that market mechanism along with macroeconomic policy of the State was enough to carry out changes and to shape the required economic structures.

The program aimed at economy stabilization in the first place, then a reconstruction of its functions.

Economy stabilization included for example a significant decrease in the level of inflation, mainly through locking up nominal wages, constant rate of exchange and a restrictive monetary policy. Also budget restrictions in enterprises and households were increased (ban on subsidies), whereas prices were liberated.

In order to create market competition, both internal and external processes of anti-monopolization and deconcentration of economy was initiated, foreign trade was liberated, central goods distribution was terminated.

As far as system transformations go, the State assumed the responsibility of initiating, designing and implementing institutional solutions. Special importance was attributed to privatization and fundamental creation of private businesses, mainly because they considerably accelerate transition to a market economy and condition the development of a monetary-capital market. Also a reconstruction of the tax system was undertaken.

The stages of economy system reconstruction were carried out mainly through:

- privatization, which was assessed to be the main and actually the only way to improvement the of economic structure,
- implementation of the concept of the so-called “creative destruction” (Marciniak 1995, p. 1), according to which transition to the phase of economic growth should come about spontaneously, without the necessity of state intervention, after the economic structure is cleared of unproductive elements.

3. RESTRUCTURING TASKS FOR ENTERPRISES IN THE PROCESS OF TRANSFORMATION

The main target and at the same time the touchstone of assumed postulates and actions undertaken within the process of transformation became State-owned industry (including production plants and services). They were

a dominating segment of the economy, which had preferred the option of industrialization.

The objective of these enterprises is adaptation to the requirements executed by successive changes aimed at the introduction of market economy principles. This involves the necessity of complex restructuring in all fields of corporate operation, whose consideration is to ensure competitiveness, efficiency and innovation. They are the *sine qua non* condition for survival and further development.

As the recently carried out research on the behaviour of enterprises exposed to system changes (Broniewska 1996, p. 16) implies, some of them took the challenge relatively fast, and through certain changes and revaluations – earned leading positions.

Others retained a conservative and passive attitude, undertaking incoherent, insufficient or contradictory actions. They drag behind reluctantly and occupying the marauder positions.

The majority, however, present a “halfway” attitude, where the consciousness of dangers resulting from the period of transition does not correspond with possibilities and qualifications. That is why they are struggling so hard to adapt to the changing reality, although often to an insufficient degree.

The initial animosity, the specific transformational procrastination of enterprises resulted from the models of behaviour consolidated in the period of the state-owned economy. According to them, the enterprises solved their problems arising from changes in its environment (like the increasing economic crisis) with the method of “shifting” them outside, demanding the intervention of administrative organs, organs of economic centre, or lobbying to enforce a decrease in the level of financial parameters, which were the criterion for their assessment.

The consistency in introducing successive elements of market mechanism and the increasing dynamics of environment changes from the transition period has turned out, as it seems, a “too high tide” hazarding the attempts of “enterprise drifting”. Soon it made them believe that a reconstruction of the way they function is inevitable.

At the same time it turned out that a significant barrier in the process of restructuring, which would adapt the enterprise for the requirements of market mechanism of their competitors, is the strategic vacuum around the enterprise, among others: the lack of strategic thinking, including planning the future of the company, lack of information about structuralizing elements of the environment, and also the inside of the enterprise. This is a prominent hindrance for the realization of primary objectives of restructuring, i.e.:

- defining the concept of business (range of business activities),
- defining the market position,
- creating, maintaining or increasing own competitiveness, so as to comply with the microeconomic criteria of productivity.

As confirmed by research, the problem of a strategic vacuum in industries undergoing restructuring is also important for the range of strategic kinds/options to choose from.

However popular and even verified to a certain degree strategic kinds were expansion, integration, diversification, differentiation and others, there is still another practically unknown and disregarded strategic option in the portfolio of possible strategies of an enterprise – the divestiture, which is based on a limitation of corporate activities.

4. THE IDEA, CONSIDERATIONS AND ROLE OF DIVESTITURE IN ENTERPRISES

In the most widespread understanding of the notion (Lovejoy 1971, p. 3; Taylor 1988, p. 5) divestiture means a voluntary (planned) or forced by external circumstances limitation of the range/profile of business activity through cessation (withdrawal, liquidation) or through disposal (sale). The elimination process concerns mainly production and auxiliary activities, marketing or research function, the respective assets and personnel. Only the transition to market economy taking place in the process of system transformation disclosed the evident necessity of divestiture both on a macroeconomic (whilst restructuring a costly sector) and on a microeconomic scale.

Polish enterprises, which used to function in the conditions of the state-owned economy, well away from the “cutting edge” of competition or other attributes of market mechanism, perceived the necessity of their development in rather a peculiar way. They identified it above all with investment, i.e. increasing the potential of the enterprise with new material, financial and human resources, which were acquired through allocation decisions of the economic centre (the State).

At the same time, in the conditions of a deficit economy, these enterprises actually did not have a chance of making the decision of divestiture, i.e. of withdrawing from some fields of business activity.

Occasional decisions of giving up certain kinds of production or technology came from central economic administration. Considerations of their realization were sometimes presumptions about the so-called “branch purity”, but more often they were certain preferences in the distribution of a limited supply of investment funds.

These decisions were hardly ever made by organs of local administration, and if so, they resulted from for example reasons of environment protection.

Certainly, in the conditions of a producer market, the influence of market consideration was rather minor, especially of competition connected with

a certain level of product (service) quality, or its functionality meeting the consumer expectations, etc. Another reason for fuller implementation of divestiture is the technology gap which plagues a considerable section of our industrial production businesses (Grudzewski 1994, pp. 1-9).

Overcoming the technological and organizational retardation of Polish enterprises depends upon carrying out certain procedures aimed at preventing the limited investment funds available from attachment to the existing assets, or rather from “swamping” into out-of-date technologies. It would severely impair their competitiveness in the home market of “open” economy, not to mention expansion of foreign markets.

The inevitability of divestiture is verified by models of production and the technology life cycle. Both for product and technology, the cycle includes a decline phase. This, however, does not eliminate the possibility of prolonging the maturity phase of certain technologies or products, e.g. through modernizations or preventing the decline phase from revealing, as through renewing innovations. But generally, according to the concept of life cycle, every technology or project will always grow old, which brings about the need to terminate the firm’s activity connected with it.

Experience of countries of a developed market economy proves that divestiture, ensuring a dynamic balance, is a significant and unavoidable condition of the smooth development both of an enterprise and of the entire economy. They are a *sine qua non* condition for corporate innovativeness and also a complementary, in relation to investment, accomplishment of the mechanism of adaptation to the changing environment.

The urgency of divestiture as a tool of restructuring for Polish enterprises arises from the following:

- the need for overcoming the effects of excessive investment in the conditions of state-owned economy, that is adapting assets, structures, production potential to the actual requirements of the market,
- the need for liberating (decreasing) the capital involved in current activity. External conditions of availability of capital needed for further development are very strict in a transition period economy, this is why enterprises should be interested in using alternatives capable of the activation of internal reserves.

As verified in research (Osbert-Pociecha 1996, pp. 14-15), most divestment operations are undertaken in the face of crisis, which is accompanied mainly by destructive effects. However, also divestment of anticipative character is possible, i.e. one that creates chances of development acceleration and expansion. The subject of divestiture need not be considered “bankrupt’s estate” in the extreme sense of the notion. As a strategic management tool, divestiture helps advance from revealed hazards towards a potential chance.

It is a vital condition for the introduction of successive (more or less delayed in time) product and technology innovations.

The anticipative dimension of divestment operations gains a broader meaning in the context of changes in the current mechanism of competition. Before now, enterprises competed according to the rules of stationary warfare. Presently competition has assumed the form of "guerrilla warfare", where success depends upon the correct identification of a market tendency and a prompt reaction to changing consumer needs. Winners can enter new products and markets, or even new business fields much faster, but they can also back out quickly. Strategic superiority is to an increasing degree determined by the skill of a flexible shaping of the firm's potential, which involves using divestiture as a tool of strategic management.

5. DIVESTITURE AND STRUCTURAL POLICY

Undertaking divestment operations in an enterprise as a manifestation of structural changes assumed in the process of transformation, requires co-ordination with the assumptions of the State's structural policy.

The policy should act as stimulator both for "destroying" old structures and for the adjacent process of creating new, more efficient structures.

In this way the scope and the extent of corporate divestment and its economic and social effects could be limited to a level necessary for maintaining innovativeness and further development.

In the first years of the Polish economy transformation there was a tendency to concentrate on the issue of stabilization, and not to appreciate the need for formulating a comprehensive (i.e. including, apart from industrial policy, also the scientific and technological policy, ecological policy, agricultural policy, etc.) structural policy of the State. Undoubtedly it was one of the more important conditions of the relatively low tendency of Polish entrepreneurs to divest – i.e. to choose the option of radical improvement of the business situation by eliminating the unproductive elements of the enterprise.

6. CONCLUSIONS

In the concept of divestiture there is a paradox – a part of, or the entire enterprise is healed and cleared through withdrawal or limitation, and the liberated capital creates conditions of further development of the entire business.

Divestment as the other (apart from investment) side to business activity is characterized by a certain difference, manifesting among others in the following:

– specific psychological atmosphere. Divestiture usually “hurts” both in financial and emotional sense. It is perceived as the result of incompetence, wrong decisions, overdue reactions – which finally severely impairs the firm’s image,

– irrevocability of divestiture decisions – which increases the natural tendency for their postponing or concealing the symptoms showing the necessity of divestment,

– interest in reducing current and future losses by the person in charge of divestiture, as soon as possible overcoming the crisis situation which is the source of anxiety.

The anxiety of the divestor is different from the anxiety of an investor. The latter expects that as a result of his actions, the invested capital will be multiplied in a given time.

However, as Drucker (1992, p.148) remarks, “the first step on the road to development does not consist in deciding where and how to develop (invest), but in deciding what to give up”.

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