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# ARGUMENTA O ECONOMICA

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*Rafał Krupski*

SELECTION METHODS  
OF PRIVATIZATION VARIANTS  
IN PUBLIC UTILITY ENTERPRISES.  
AN EXAMPLE<sup>1</sup>

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1. INTRODUCTION

The privatization of state enterprises has been a slow process. There are many reasons for this state of affairs: political, economical and social etc. It is particularly difficult in a communal economy where decisions are taken by the councils of towns and communes. The limited knowledge of councillors and fears of presidents and mayors etc. about maintaining their position, delay the privatization process in a communal economy.

The fear of privatization is so strong that most of the previous communal economy enterprises turned into state budgeted establishments rather than change into commercial enterprises, so losing in the process their status as an economic unit.

Only a small percentage of such units in the whole country attempted privatization via various means (capital or liquidation, based on the privatization decree for the state enterprises), one such example is the Nieruchomości Świdnica S. A. (NSSA), a company which was created from the ex-communal and housing works into a public company with 100% shares possessed by the town. According to the decree when privatizing through capital means, such a public limited company has to undergo restructuring within two years and, above all, has to sell shares in a direct or indirect way to physical persons and/or corporate bodies. However, the town authorities could decide otherwise; they can liquidate

<sup>1</sup> This paper was published firstly in: *Prace Naukowe AE [RW of WAE]* 1993, No 657.

the company through withdrawing 100% of their shares and creating one or more state-owned, specialist firms. They can also let out the municipal assets of a liquidated public limited company or lease them out to a company formed by employees or other persons making a suitable offer.

Analysis of the problems connected with the choice of the suitable legal and organizational form from the potential solutions led to the establishment of a relatively original procedure, the presentation of which is the aim of this article. Because of editorial considerations it has a synthetic form, and therefore a universal one. The specific conditions of the examined communal system are pointed out only in some phases of the procedure and in the presented example.

## 2. THE IDEA OF THE PROCEDURE

The basis for creating any organizational variants is to identify the criteria for defining the general solutions often in a dichotomic scheme. The detailed variants are then created from the combination of solutions identified according to different criteria. Generating and presenting these detailed variants becomes the second phase of the proceedings. The next phase is a simulation of results of accepting certain variants and researching suitable scenarios. The next phase is the identification of aims of various subjects which will be affected by the results of the proposed changes. Those aims constitute a particular reference basis for appraising particular variants.

Further phases of the procedure assume a specific hierarchy of goals, followed by the evaluation of the level of realization of those aims in relation to each organizational variant separately. Because of the varying degree of their realization in all the variants, one has to use a definite algorithm of multidimensional comparative analysis.

As a result of such analysis these variants can be organized in groups, firstly ordered from the best to the worst. The idea of the procedure is presented in Fig. 1.

## 3. SHORT CHARACTERISTICS OF THE PHASES OF THE PROCEDURE FOR CHOOSING A VARIANT OF RESTRUCTURING AND PRIVATIZING A COMPANY (NSSA)

### 3.1. Criteria of creating the organizational and legal variants connected with the further transformation of the company

Two general criteria have been accepted in the analysis:

- the unity of the economic and organizational system (either one economic

entity functioning as a conglomerate of varying activities or a few independent specialized units)

- capital and other economic connections between the subjects of the system.

### 3.2. Variants of solutions

On the basis of the above-mentioned criteria there have been proposed ten variants of further transformations of NSSA. We do not present them in detail because of editorial concerns, but we simply give their general characteristics:

Variants 1 and 2 concern the solution dealing with the sale of the company shares (with or without structural limitations).

Variants 3 and 4 foresee the liquidation of the company and the taking over of its assets or leasing them out to the company made up from its employees with the possibility of calling in other outside parties.

Variants 5 to 8 presume a differentiated division of the assets and the creation of a few specialist companies with varying configurations in their relations.

Variants 9 and 10 comprise of: withdrawing shares by the city authorities, liquidating the existing company and creating a few state-owned companies managing the communal assets as representatives of the town.

### 3.3. Scenario of the Situation Development

In relation to each of the above-mentioned variants, we have simulated the results of their implementation. The suitable scenarios have been prepared to forecast the developments in the near and more distant future.

### 3.4. Aims of the system

Through 'the system' we understand here the following subjects:

- economic units acting in the sphere of communal and housing economy,
- the receivers of the communal and housing services, i.e. the town's population and others,
- the town council as the commissioning party in economic relations and the connections between them.

The analysis of the system, its elements and connections between them lead to an identification of the following groups of aims:

1. Social aims of the town and its citizens
  - social acceptance of the communal services
  - territorial scope of activities
  - quality of services

- diversification of services
- influence of the town authorities over the above-mentioned aims (at the disposal of the town authorities).
- 2. Economic targets of the town
  - minimalizing the budgetary means with the unchanged scope and quality of services
  - receipts for the town's budget on the basis of the new organizational and legal solutions.
- 3. Economic aims of the economic subject(s) of the communal economy not inconsistent with the interests of the inhabitants
  - the possibilities of creating profits through lowering costs
  - the possibilities of creating profits through creating new markets for services and extending existing ones
  - the realization of the profits ensuring investment for development
  - the realization of profits serving the interests of the owners of the means of production (for example, company dividends).
- 4. Privatization aims
  - sale of the assets (in this case communal ones)
  - the possibility of collecting suitable capital
  - creating conditions of competition between companies.

### 3.5. Hierarchy of aims

We have assumed in the analysis that all the groups of aims are equally important and because of it there is no need for putting them into any hierarchical order. Table 1 (column 2) presents the degrees of importance ascribed to particular aims. Within the given group the aims add up to '1'. Establishing degrees of importance has been based on consultations with various interested parties of the system.

### 3.6. The estimate of the degree of achieving the aims according to an agreed scale of points related to particular variants

Identified aims of the system (3.4) have been confronted with the scenarios of the situation development connected with each of the ten solutions dealing with the privatization solutions, and appraised the degrees of the achievement aims on the scale from 10 to 1 point. As in the case of establishing the hierarchy of aims, the quantification of the degrees of achieving aims has been established among the specialists of the analysed communal system. The corresponding marks (in points) are presented in Table 1.

### 3.7. Algorithm of the multidimensional comparative analysis

Scenarios of the results of accepting certain economic and legal solutions for the communal economy system assume various degrees in achieving various aims. In the general appraisal of the variants there is required a mechanism connecting various degrees of achievement of varying, sometimes mutually contradictory, aims. Partial evaluation of achieving a given aim in a given

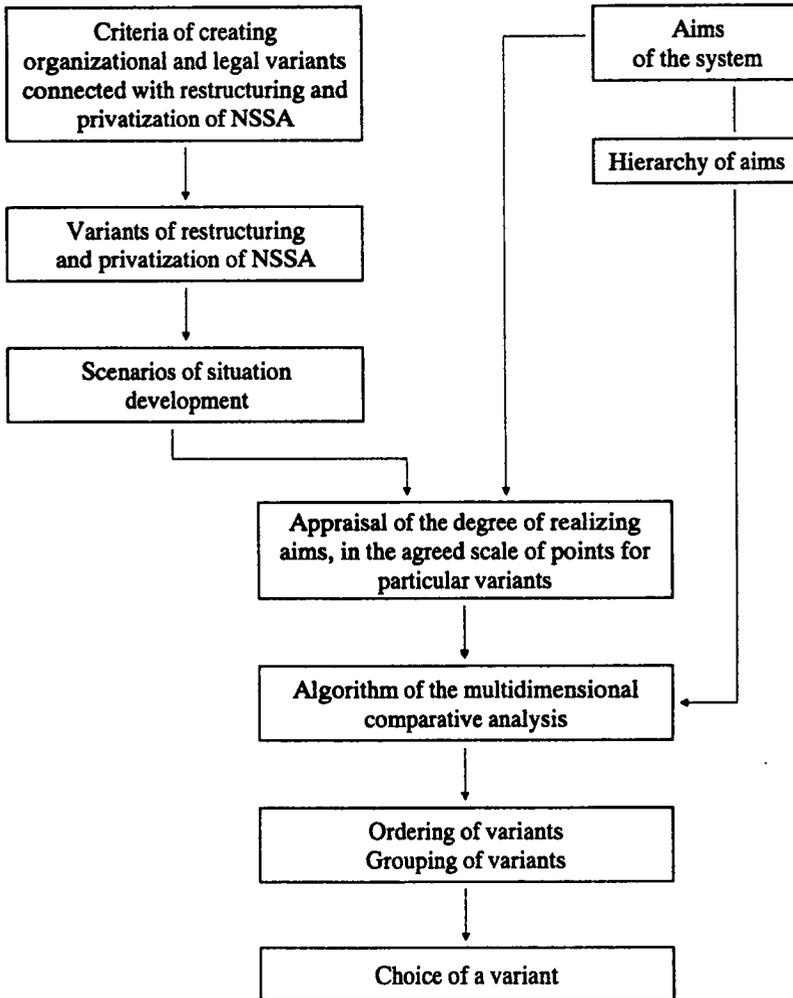


Fig. 1. Procedure for choosing the restructuring and privatization variant for NSSA  
Source: Prepared by the author.

**Table 1**  
**Appraisal of variants in the multidimensional comparative analysis**

Aims	Im- por- tan- ce (w)	Number of variant																						
		$x_i$	$w_i x_i$	$x_i$	$w_i^2 x_i$	$x_i^3$	$w_i x_i$	$x_i^4$	$w_i x_i$	$x_i^5$	$w_i x_i$	$x_i^6$	$w_i x_i$	$x_i^7$	$w_i x_i$	$x_i^8$	$w_i x_i$	$x_i^9$	$w_i x_i$	$x_i^{10}$	$w_i x_i^9$	$w_i x_i$	$x_i^{10}$	$w_i x_i$
1. Social aims of town and its population																								
– cost of communal services	0,5	4	2,0	1	0,5	2	1,0	3	1,5	8	4,0	6	3,0	8	4,0	6	3,0	9	4,5	10	5,9	4,5	10	5,0
– territorial range of activities	0,1	3	0,3	10	1,0	10	1,0	8	0,8	4	0,4	5	0,5	6	0,6	7	0,7	2	0,2	1	0,2	0,2	1	0,1
– quality of services	0,2	8	1,6	7	1,4	10	2,0	9	1,8	3	0,6	5	1,0	4	0,8	6	1,2	2	0,4	1	0,2	0,4	1	0,2
– variety of services	0,1	3	0,3	10	1,0	9	0,9	8	0,8	4	0,4	6	0,6	5	0,5	7	0,7	2	0,2	1	0,2	0,2	1	0,1
– controllability by town authorities	0,1	4	0,4	1	0,1	2	0,2	3	0,3	8	0,8	6	0,6	7	0,7	5	0,5	9	0,9	10	1,9	0,9	10	1,0
$\Sigma w_i x_i$			4,6		4,0		5,1		5,2		6,2		5,7		6,6		6,1		6,2		8,4	6,2		6,4
2. Economical aims of town																								
– budgetary expendi- ture (min.)	0,5	3	1,5	6	3,0	6	3,0	6	3,0	9	4,5	10	5,0	7	3,5	8	4,0	2	1,0	1	0,2	1,0	1	0,5
– revenue (max.)	0,5	5	2,5	8	4,0	9	4,5	10	5,0	5	2,5	6	3,0	5	2,5	7	3,5	2	1,0	1	0,2	1,0	1	0,5
$\Sigma w_i x_i$			4,0		7,0		7,5		8,0	8	7,0		8,0		6,0		7,5		2,0		0,4	2,0		1,0



variant is a ratio of the importance of the aim and its number of points (Table 1). In this way achieving the more important aims gains more importance. The sum of products gives a global appraisal in the section of particular variants. The higher the sum the better the given variant. Table 1 presents the results using this algorithm.

#### 4. CONCLUSION

The presented procedure for the choice of organizational variants has a universal character. It proves itself highly useful in solving difficult problems of enterprise privatization. In the subject literature dealing with strategic planning, we come across similarly constructed procedures especially in so-called scenario planning. Some of them, for example the ideas of constructing scenarios of situation development, have been used here (Heinen 1984). Others, connected with using the points awarding method, have been used as suggested by American research on non-scenario methods of strategic planning (Krupski 1991).

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