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***Survival and bankruptcy of enterprises active in the period of Peoples Republic of Poland in the context of privatization processes.***

Project objectives/Research hypothesis

The main goal of the project is to analyze the patterns of firm survival in the case of a large structural shock. Specific context of this process is provided by eventual misallocation of resources (e.g. excessive or insufficient K/L ratio). This was the situation of Polish state owned enterprises (SOEs) on the verge of transition from a centrally planned economy to a market one. In the project we aim to verify the following hypothesis: the growth of a region is predetermined by resources (mis)allocation. We interpret predetermination by the persistence of resources (mis)allocation. In addition to the main hypothesis we postulate that there is a nonlinear relationship between the extent of misallocation and growth – in addition to very low, also very high misallocation could be conducive to growth, due specialization and/or potentially very high restructuring effects. In combination with the SOEs data on survival (at plant level) this will also help to establish the scope of excessive versus justified bankruptcies, thus yielding grounds for pinpointing the value generated by management decisions and ownership change.

Research project methodology

This is an empirical project (microeconomic), rooted in three strands of the literature: firm survival, privatization of SOEs and resources misallocation. During the course of the project we will conduct studies three types of analyzes. First, we intend to identify industry, cohort and regional extent of resource misallocation. We use a unique source of plant-level data for Polish SOEs prior to 1989 as well as firm level data from the transition and post-transition phase to measure the original allocation of resources. We will proxy the extent of pre-transition (mis)allocation by three indicators: industry-specific K/L ratio in other countries, region-specific K/L ratio by foreign firms within each industry in Poland and the extent of region-specific change in K/L ratio within each industry (on top of nation-wide changes within each of these industries). Second, we aim to verify the link between the resource misallocation and growth within region and industry, decomposing the growth into part attributable to reducing misallocation and part attributable to total factor productivity (TFP) growth. The benchmark for TFP growth will be inferred from firm-level data on SOE incumbents from other CEECs and from firm-level data on private newly established firms (NEFs). Third, we hope to identify which firms should go into bankruptcy and which should not by the means of using the general link between region and industry-specific resource misallocation and unique data on the survival pre-transition SOE plants in Poland. The mismatch between the model prediction and the actual survival patterns provides ground to tentatively judge the role of management and ownership changes in fostering survival of SOEs (successful reallocation).

We will use the modern methods to estimate TFP and as well as survival models and employ unique dataset on Polish SOE census plants which comprise data on capital, labor, sales revenues in addition to



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region and industry identifiers. Benchmarks for other countries of the region and private NEFs will be derived from dedicated firm-level microeconomic data (Amadeus for foreign firms, for Polish firms we will additionally obtain data from and F01/02 forms from the Central Statistical Office).