

BATAK LIMITED - A CASE STUDY ON BUSINESS  
MANAGEMENT IN POLAND

by

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ABSTRACT

The thesis explores business management in Poland through a case study of Batax, Ltd., a privately owned firm operating in Poland since 1983. Batax was chosen for the study because it has grown to be one of the most profitable and visible firms in Poland with operations in a wide array of sectors including manufacturing, trade, finance, real estate, retail and culture. Additionally, it has been a trendsetter in Poland in several areas, namely, the introduction of personal computers into Poland, the staging of Poland's first privately produced theatrical production, and engagement in hard currency financing to Polish state enterprises in the late eighties, a time when such funding was scarce.

The objectives of the case study are two-fold:

1) to provide practical insights on business management in Poland. Tremendous changes have occurred in Poland over the last few years attracting the interest of Western businessmen. While interest remains high, Westerners consistently report disappointment and confusion in attempting to actually do business in Poland. Apparently, there are unique characteristics of the Polish environment that are difficult for the Westerner to grasp from reading the numerous general descriptions of the Polish situation. A case study of a successful business operating in Poland will provide many useful insights.

2) to bring to light the role of the Polish entrepreneur. Although private businessmen or entrepreneurs have always existed in Poland, they have recently become quite prevalent during the current transition in Poland. The press often cites them as an emerging and powerful class that is playing a significant role in transforming the economy. To date, little has been written about this group. My thesis will hopefully begin to fill the gap.

The case study provides a historical survey of Batax Ltd.

It describes the firm's strategies and evolution in the context of changing macroeconomic, legal and political conditions in Poland. The study distinguishes between two distinct periods. The first period, from 1972 to 1989, covered in Section 1 - "Operating under the Communist Regime," focuses on how Batax operated under such constraints as stifling bureaucratic environment and currency inconvertibility. It also describes the opportunities that were created under these circumstances. The second period, from 1989 to the present, covered in Section 2 - "Responding to the Political and Economic Revolution," describes how Batax has managed its rapid expansion in response to reforms and liberalization. The thesis concludes by attempting to provide some insights into the future, covered in Section 3 - "Batax's Future Strategy Focus."

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**BATAX LIMITED- CASE STUDY ON BUSINESS  
MANAGEMENT IN POLAND**

In late March 1991, Wiktor Kubiak, founder and sole owner of Batax Ltd., absent-mindedly staring at the Warsaw cityscape from his headquarters on the eighteenth floor of the Marriott Hotel, pondered the future direction of his company. During the course of the last twenty years, he had evolved from being a trader to establishing and expanding his company into one of the most profitable and most visible enterprises in Poland, with operations in a wide array of sectors including manufacturing, trade, finance, real estate, retail and culture. Batax's operating profits for the last year were estimated at approximately \$80 million. (See Exhibit 1). The figure, nevertheless, is misleading for it reflects profits earned from many one-time opportunities that occurred during Poland's transition period while neglecting the potential of numerous investments in longer term businesses the firm was currently making to position itself for the future.

Kubiak had already witnessed and successfully responded to many challenges in doing business in Poland. He recalled the early years,

operating under a Communist regime, with the many unique obstacles and opportunities it afforded. He responded to this challenge, circumventing obstacles and taking advantage of the low cost of inputs and wages, the dearth of sophisticated competition and the centralized structure of the economy to build an organization focused on trade, manufacturing and financial arbitrage. This period was followed by the election of a non-Communist government in 1989 and a complete shift in the economic and political structure of Poland, offering unprecedented opportunities for growth for his firm. Again, he responded by exploiting lucrative one-time arbitrage opportunities during the transition period, establishing partnerships with Western firms interested in entering the Polish market and taking advantage of the privatization process to make investments previously unavailable to him.

Kubiak was currently reflecting on his past moves and considering a strategy in response to his latest challenge - the impending threat of major competition from multinational corporations who were

beginning to make inroads into Poland. While the multinationals currently faced entry barriers, primarily in the form of lack of experience and contacts in the Polish market, it was only a matter of time before these obstacles would be overcome. Once surmounted, the sheer size of the multinationals provided them with distinct advantages including financial wherewithal, international networks and experienced and substantial manpower. Kubiak realized that he was essentially "a small player" relative to these new competitors and considered his best options for facing the future.

## **OPERATING UNDER THE COMMUNIST REGIME**

### **Background**

The Polish economy under which Kubiak initially operated, can be characterized by top-down planning as opposed to market competition. (See Exhibit 2 for general data on the Poland). Approximately 90% of industrial production was state-owned. The presence of private enterprise was negligible, and was further discouraged by administrative barriers, currency inconvertibility, lack of financing, shortages of inputs (due to lack of a market pricing mechanism) and an unstable legal system.

At the same time, the market inefficiencies existing in Poland, provided

several unique opportunities for those that could manage or circumvent the system. Major advantages were as follows:

1) low cost of inputs and low wages of workers.

2) lack of competition and pent-up, unmet demand in the Poland's domestic market. Foreign firms were practically absent from the market. The Polish state firms, were protected by law from bankruptcy, were often motivated by political rather than economic incentives and, were typically focused on heavy industry rather than consumer goods. Consequently, by and large, they produced an inadequate supply of low quality goods inefficiently.

3) the ability to negotiate very large and lucrative trade deals with the foreign trade organizations (FTO's), through which all buying and purchasing was centrally organized.

4) the presence of arbitrage opportunities stemming from the nonexistence of market signals, particularly in the areas of foreign currency and finance.

### **The Beginnings of Batax**

Wiktor Kubiak, the founder of Batax, was born in Warsaw in 1946. He studied at the University Warsaw at the Department of Political Economy. In 1968, he participated in student strikes against the government and was dismissed

from the university and exiled from Poland, a few months before obtaining his degree. Kubiak settled in Sweden, where he attended the University of Lund, obtaining a degree in political economy. In 1972, upon graduation, he embarked upon his business career dealing primarily with Poland.

Initial business activity involved the manufacture of garments in Poland for Katja of Sweden, a well-established fashion house. Entry into the market was more a matter of luck and opportunity rather than the execution of any particular strategy. Poland did indeed offer certain attractions, namely, a significant infrastructure for the manufacture of textiles as well as skilled and cheaply priced labor. Kubiak was ultimately responsible for production of 70% of Katja of Sweden's inventory, approximately 200,000 pieces annually, which he personally supervised at the Polish factories. The business lasted for three years and its major importance in terms of Kubiak's long term businesses was the hands-on experience and contacts at the FTO's that it afforded him. All contracts were negotiated with FTO's representing garment manufacturers, in accordance with Polish law.

In the following years, Kubiak used his expertise with the Polish market and his contacts to become a

successful trader. He primarily represented a full line of machine tools, capitalizing on the major investments Poland was making (utilizing Western credits) in heavy industry. Companies he represented included Upo-Finland, Uva, Gildermeister und Knoll, and Hertline.

The Polish foreign trade structure made trading particularly lucrative. As mentioned, all negotiations took place with the FTO's, which were organized by industry and essentially centralized all international purchases and sales for each industry. (See Exhibit 3). As a result, when a sales contract was negotiated with the FTO, it was typically a very large one. Additionally, the employees of the FTO's lacked the incentives, knowledge and sophistication to negotiate the best deals for themselves, which also tended to benefit the foreign party to the transaction. Kubiak continued trading activities to the present, even after establishing his own company and manufacturing operations in Poland.

#### **A Polonia Firm is Born**

In the 1980's there existed two vehicles for foreign direct investment in Poland - the Polonia firm and the joint venture. A Polonia firm could be established by a foreigner by investing a minimum of \$50,000 in cash or in kind. It had a 3-year tax holiday after which it was

subject to a Polish corporate tax of 80%. The Polonia firm, practically speaking, was the only vehicle through which a foreigner could invest in Poland and maintain control of his company. Approximately 700 Polonia firms existed in Poland throughout the eighties. They accounted for a very small percentage of Poland's industrial output, generally estimated at less than 5%.

The only other foreign investment alternative, the joint venture with a state company, had major drawbacks rendering it unattractive to most foreign investors. The foreign investor was allowed only a minority interest in a joint venture and so essentially lost control of his business. The joint venture was made even more unattractive by the fact that the Polish partners had little understanding of Western business practices and were often motivated by incentives different from the profit incentives of their Western partners (e.g. increased access to hard currency, improved tax status or the ability to travel abroad). As a result, few joint ventures were formed in the eighties and the little investment that was made in Poland took the form of a Polonia company.

Batax was established under the status of a Polonia firm in 1983, with the authorization to engage in manufacturing operations. (Kubiak's trading activities continued in his own name,

since Polonia firms were prohibited from engaging in this activity.)

Operating a Polonia firm under the Communist regime proved to be quite problematic. Below are listed some of the most often cited obstacles:

1) lengthy and arbitrary registration process. On average, registration took one year, requiring the approval of the local city council as well as permission from several ministries including the Ministry of Foreign Trade, Ministry of the Interior, Ministry of Internal Trade, and Ministry of Foreign Affairs. The application could be arbitrarily rejected at any stage.

2) the unavailability of financing. Neither Polish nor Western banks were willing to finance these ventures and so the Polonia firm had to be 100% self-financed. An additional problem was that there was no secondary market and so once investments were made, it was difficult to exit the market.

3) excess of bureaucratic controls. Operations could be stopped at any time for various government control checks e.g. accounting procedures, tax, environment. One of the Batax managers cited up to 15 controls monthly. Government officials had incentives to make excessive control checks since they were typically underpaid and obtaining

bribe money was one way to supplement their income.

4) shortages of inputs. The Polish economy was characterized by persistent shortages of goods, primarily due to the lack of a pricing mechanism to allocate goods combined with inadequate planning in the top-down system. As a result, obtaining inputs required lengthy negotiations with suppliers and always contained an element of uncertainty.

5) unstable legal system. Laws and regulations, particularly regarding corporate taxes and customs duties, were often unexpectedly and arbitrarily changed, rendering profitable businesses unprofitable virtually overnight.

6) foreign currency restrictions. All zlotys had to be converted at the official rate. Since the official rate was often four or five times higher than the (black) market rate, it virtually removed any cost advantage Polish products had.

### **Developing a Strategy**

The environment described above, led Batax to develop a distinctive strategy to enable it to survive in Poland. Most of the obstacles, namely, those discussed in points 1,3 and 4, were addressed at the personal level, through

lengthy negotiations and the development of a strong network of contacts. Nevertheless, points 5 and 6 were obstacles over which the firm had no control, and Batax's strategy addressed these in particular. Simply stated, it was as follows:

1) diversification. It was optimal to engage in a wide variety of businesses and keep an eye open for emerging business opportunities rather than to develop and grow one specific business. In this sense, Batax often acted as a venture capital firm, going forward with perhaps thirty different projects expecting one to succeed. The reason for such a strategy was to minimize the risks of the uncertain, everchanging legal environment. As will be detailed more fully below, the change in the legal environment had a significant negative impact on two of Batax's established businesses - cosmetic and personal computers. Diversification ensured the company's survival despite these setbacks.

2) engagement in complementary import-export businesses that would circumvent foreign currency restrictions.

### **The Compatibility of Cosmetics and Laminated Boards**

Batax's first manufacturing operations involved the production of cosmetics, under Max Factor license. Cosmetics were



chosen as a business because there existed a tremendous, unmet domestic demand for the product. A factory was set up in Sarnow, about 60 miles outside of Warsaw. The factory employed 100 workers which included sales force that sold directly to retail stores throughout Poland.

To complement the cosmetics business, a factory manufacturing laminated boards was established in Koszalin, in Northwestern Poland. The complementary nature of the cosmetics and wood businesses related to the foreign currency restrictions. The cosmetics were sold domestically for zlotys. These zlotys were then used to purchase wood in Poland at local prices. The wood was manufactured into laminated boards which were sold to West Germany for hard currency. The hard currency was used for purchase of needed Western products for production, and again, the cycle repeated itself.

The income earned from the domestic sales of cosmetics provided Batax with a cheap source of the local currency with which to buy Polish wood. Without a source of zloty income, the wood would have to be purchased for zlotys purchased officially, at a cost four to five times higher. At the same time, without the wood operations, the zlotys earned in the cosmetics business would have to be converted to hard currency officially, again, at four to five times the price.

One year after the cosmetics operations were established Polish tax laws changed rendering the business unprofitable. A substitute source of zloty income needed to be identified. Since Kubiak had already begun selling computers to Poland and saw this as an infant market with potential for strong domestic demand, he decided to convert the Sarnow facilities to the production of personal computers. (Exhibit 4 diagrams transaction flows under the system of currency restrictions).

### **Personal Computers**

In 1984, Poland's personal computer (PC) industry was in its nascent stage. No Western PC's had yet entered the country, in part, due to the fact that Poland was on an embargo list. 15 firms, both state-owned and private enterprises, were engaged in the development of Poland's own PC, however their approach was misguided. The firms were focusing on developing their own documentation to build a computer from scratch using components produced in the Eastern Bloc. They had no knowledge of the modular approach to computer construction being used in the West.

Millions of dollars were already invested by Polish firms but with few tangible results. The parameters required in documentation

were rarely met by the manufacturers of the components and thus few of the computers worked. The two or three prototypes that did work, broke down often and required a highly trained expert to diagnose the problem and repair it. In short, they were impractical.

There were other, significant problems associated with the approach used. Even if a workable model could be developed it would be incompatible with existing hardware and software used in the West. These would need to be developed in Poland, requiring an immense infrastructure of engineers and programmers, which did not exist. Additionally, the possibility for export would be eliminated. Finally, the computer was uneconomical. It cost \$3000 to build at the same time a similar computer could be purchased in Taiwan for \$1500.

In 1984, Kubiak invited representatives from Poland's computer firms for a meeting, during which he attempted to change their philosophy regarding developing a computer industry in Poland. The meeting ended in failure.

A second meeting followed a few months later. This time Kubiak brought with him three PC's smuggled in from Taiwan. These were the first Western PC's seen in Poland. At the same time, Kubiak, who had no formal technical background,

proceeded to disassemble and reassemble the computer in a matter of minutes. The demonstration was a success and the meeting ended with cognac and champagne and the smashing of the Polish prototype. Poland had entered the personal computer age.

Kubiak's immediate goal in holding the meetings was to develop a market for Taiwanese computers and components which he would import. He engaged in strictly import activities for a year after which he converted Batax's cosmetics operations to the assembly of PC's.

Batax pursued a strategy of simultaneously establishing its own production facilities and educating and expanding its customer base. With regards to the former, three engineers were sent to Taiwan for six weeks to observe and learn the production process and obtain documentation. They returned and wrote the first Polish documentation for the production of PC's as well as technical specifications for the PC's themselves, adapted to Polish conditions. A facility for assembling PC's was then established in Sarnow.

In terms of creating a customer base, Batax initially began to work with the universities - University of Warsaw, Warsaw Polytechnic, and the Academy of Sciences. It educated the professors who in turn translated approximately 200

manuals into Polish. Next, Batax sponsored 2-week computer courses where approximately 3000 people were trained. The more talented students/programmers were hired by Batax. These individuals, in turn, wrote programs specifically for the Polish market.

A final factor that helped rapid dispersion of information to the general public was the fact that Poland had weak copyright laws pertaining to software. As a result, copied software programs were brought in from the Far East and dispersed at a fraction of the cost of the original. Batax engaged in this activity as another way of expanding its customer base.

The annual volume and trend of computers sales is provided in Exhibit 5. From 1984 through 1987, Batax enjoyed an 80% share of the Polish market after which its share dropped markedly to the current 5%. The deterioration of market share was due in part to competition as well as a decision to retract from the market as margins became too narrow to ensure an adequate profit. Prices for PC's dropped significantly from \$4000 in 1984 to \$520 in 1990, with margins narrowing concurrently. The price drop resulted primarily from growing competition, especially from small traders. Hundreds of small companies were formed, initially attracted by large margins, for the sole purpose of importing PC's. Such

competition was further encouraged by the fact that airfares on the Polish National Airline, LOT, were subsidized. A round trip fare to Singapore cost approximately \$26. It was very easy and lucrative for an individual to fly to Singapore pick up a few computers and sell them upon his return. These individual entrepreneurs also had the competitive advantage of avoiding customs duties, since they typically imported only a few computers at a time which they would officially claim was for their own use.

Batax, nevertheless, remained the only private manufacturer of computers in the country. The position temporarily sheltered it from competition, enabling it to maintain a niche in the market based on high quality, service, and the ability to provide unusual configurations specified by certain customers. It also began to add more value to its products by expanding into the installation of computer networks or systems, complete with the necessary software packages. As a result, it maintained a price premium over competition and was able to attract large buyers such as the Main Bureau of Statistics, the educational institutions and banks. Additionally, Batax began to enter the Soviet market, where it sold approximately 3500 computers between 1988 and 1989, primarily for transferable roubles.

To date there are 250,000 sold in Poland with future sales forecast at 5000-6000 annually. Given the low volumes and the current competitive environment, Batax is retrenching from the business. As far as the Soviet market is concerned, given the unstable political situation, and the entry of major Western firms into the market i.e. IBM is negotiating to build a plant in the Soviet Union, Batax is not optimistic about its future prospects in this area.

#### **The Soviet Union - Arbitrage Opportunities**

Batax's entry into the Soviet market was related to its computer business. The development of the Soviet computer market lagged Poland by about five years and so lessons learned in Poland could essentially be applied towards the Soviet Union at a later date. Batax's first dealings with the Soviet Union therefore consisted of importing computers from Singapore and selling them to Soviet joint ventures. Joint ventures were chosen since they tended to be the more sophisticated companies and also because they had hard currency. Computers were initially sold for hard currency with cash payments in advance required. This required a certain level of trust on the Soviet side and much time was spent cultivating contacts. As mentioned earlier, approximately 3500 computers

were sold to the Soviet Union.

The computer business led to the more lucrative business of financial arbitrage. One type of arbitrage involved the transferable rouble. There existed a different transferable rouble for each COMECON country (essentially an accounting entry), which could be used to purchase goods only from that country. Holding certain types of transferable roubles was considered almost worthless i.e. Vietnamese or Cambodian transferable roubles, since there was little to be imported from the related countries. There existed, however, a law which allowed all transferable roubles to be used to buy Polish goods. Poland was the only country that could benefit from all transferable roubles, and this was probably allowed because of Poland's large debit balance with the Soviet Union. As a result, there was a tremendous amount of transferable roubles available for purchase of Polish goods. In 1989, the transferable rouble (TR) had the value of the real rouble which had a value of roughly \$.05. At the same time, 1TR was valued at 2100 zlotys which had a value of \$.21. Batax exploited the inconsistency and sold computers and other goods to the Soviets at a value of roughly \$.07 to \$.10 per TR.

## Hard Currency Financing

Another area into which Batax diversified was that of hard currency financing of Polish state enterprises. The business represented an arbitrage opportunity as well as a chance to address unmet demand.

In the 1980's most Western banks were unwilling to lend to Poland because of approximately \$40 billion in outstanding debt that the country had already accumulated, coupled with a deteriorating balance of payments situation and social unrest. At the same time, Polish state enterprises needed financing to make much needed investments, particularly in Western machinery. The appetite for financing grew in the late eighties, when some attempts at decentralization were made, giving more autonomy to the state enterprises. One of the measures taken was the ability for the firm to keep more of the hard currency (up to 25%) earned from exports, giving the firms greater incentive to export. Nevertheless, investment in Western machinery was often needed to achieve Western standards to begin or expand exports.

At the same time, Bank Handlowy International, the Luxembourg subsidiary of Bank Handlowy, the Polish Foreign Trade Bank, had substantial hard currency deposits on its account. These deposits came from Polish enterprises, who, to avoid returning their hard

currency earnings to the government, maintained them outside of the country. Bank Handlowy International was managed by Polish bankers, typically on one of their rotations out of the country, who had very little knowledge of Western banking practices and therefore, did not know how to make a good return on the hard currency deposits.

In short, on the one hand, there was a need for hard currency financing within Poland while on the other hand there was a pool of underutilized deposits at a Polish bank branch in Luxembourg. Batax put the two parties together.

Batax opened an office in Luxembourg and acted as middleman between the bank and the enterprises. The typical transaction involved the enterprise obtaining a bank guarantee from the Polish Trade Bank naming Batax as the beneficiary. The guarantee backed a specific transaction, typically the import of machinery. Batax then discounted the guarantee at Bank Handlowy International, on-lending the funds to the particular enterprise at pricing usually around LIBOR +1%. Batax then approached the Western supplier of the machinery and negotiated a discount, typically 7%-8%, in exchange for the financing that would make the transaction possible.

Batax's primary role in these transactions was one of marketer and coordinator.

The marketing role was an important one for two reasons. First, enterprises had to become aware of the availability of the loans. Second, surprisingly, there was not a great demand to receive low priced hard currency loans. The reason for this seemingly contradictory situation was that while enterprises received increased autonomy, they still did not have ultimate responsibility for their own survival. The system of discretionary taxation was still in place and the government continued to tax the profitable concerns at higher rates while subsidizing unprofitable enterprises. Thus, the risk of bankruptcy was nonexistent while obtaining the loans and making investments placed an increased burden on the managing directors. They would have to repay the loans which meant successfully raising their exports levels. Their personal reputations were at stake. Batax managers spent a great deal of time meeting with managing directors, obtaining their trust by introducing them to their operations as well as those of Bank Handlowy Luxembourg, explaining the transaction and convincing them of the long term benefits of obtaining loans. The savvier managers who could foresee the changes that would take place in Poland and who were truly interested in improving and expanding their businesses were the ones that ultimately borrowed.

The role of coordinator was equally important. The Polish banks were notoriously slow in servicing their customers. Batax developed personal contacts both with the Polish Foreign Trade Bank in Warsaw and with Bank Handlowy International. It facilitated the process of obtaining the guarantees as well as directly aided in the administrative work of processing the loans. As Batax's reputation grew, the process became increasingly streamlined.

## **RESPONDING TO THE POLITICAL AND ECONOMIC REVOLUTION**

### **Background**

In 1988, Poland's deteriorating economic situation coupled with heightened social unrest, as demonstrated through recurring workers strikes on a scale not seen since martial law was imposed in 1981, strongly signalled a need for radical reform. While such crises occurred in the past, the situation in 1988 differed in that the Soviet Union, under Gorbachev's leadership, was pursuing an increasingly liberal, hands-off approach towards Poland. This attitude broadened the spectrum of options the Polish government could pursue without fear of Soviet reprisal.

Discussions (later referred to as the Round Table Talks) were held

between the government and a coalition of workers, represented by the Solidarity Trade Union, intellectuals and the Church to decide upon Poland's future. The government ultimately conceded to immediately hold free elections for a minority of the Parliamentary seats and scheduled future elections for all Parliamentary seats. Solidarity, unexpectedly, took immediate control of the Parliament by winning all the seats allotted to it and then forming a coalition with previously insignificant parties represented in Parliament.

The Solidarity government, now responsible for the reforms that needed to take place, decided to move quickly towards market capitalism. On January 1, 1990 it introduced a comprehensive reform package consisting of both macroeconomic and structural reforms.

On the economic front, the government was faced with the immediate problem of hyperinflation existing in Poland. To combat the situation and to create conditions for economic stability, it implemented the following measures:

- tight fiscal policy. Goals were set to reduce the budget deficit, primarily through reduced spending on subsidies. Additionally, a review to overhaul the tax system was begun.

- tight monetary policy. The central bank was granted independence from the government and prohibited from extending credit to the national budget. Additionally, a tight rein on credit expansion was maintained, supported by a policy of high interest rates and more discriminatory credit practices.

- elimination of price controls. The system of price controls and price subsidies was by and large eliminated and the economy shifted to reliance on free market mechanisms of allocation. The liberalization of international trade, as detailed below, was further expected to hasten the process of a move to free market prices.

- establishment of a temporary freeze on wages. In an effort to prevent wage-push inflation, the government adopted wage indexation laws, temporarily limiting wage increases to 30% of retail prices.

- establishment of a convertible currency and competitive exchange rate.

- opening of international markets. Quantitative restrictions on imports from the West were eliminated and a uniform tariff of 20% was adopted. Similarly, quantitative restrictions on exports were eliminated and export taxes reduced. Finally, the power of the FTO's was further weakened.

In terms of structural reforms, the government began to address the following issues:

- liberalization of foreign investment. Laws and procedures pertaining to Polonia firms and joint ventures were liberalized and simplified. Specifically, the Foreign Investment Agency was established to oversee and streamline approvals, the maximum tax rate levied was significantly reduced and foreign investors were now permitted to obtain a majority interest in joint ventures. Repatriation of profits is being restricted to 15% of profits, which is expected to remain a major roadblock to larger investments.

- development of legal systems. The process of overhauling the legal system was begun with an emphasis on establishing clear property rights and bankruptcy laws.

- development of financial institutions. The government committed itself to developing a Western-style banking system and to establishing capital markets.

- restructuring and privatization of enterprises. A new anti-monopoly law was passed and the most egregious monopolies have been broken up. The Ministry of Ownership Changes was established and the rules and processes for undergoing mass privatization of virtually all of Polish industry are currently being considered.

Shortly after liberalization occurred in Poland, a domino effect throughout the Eastern Bloc could be witnessed, beginning with East Germany and the toppling of the Berlin Wall, followed by the overthrow of the Communist governments in Czechoslovakia and Romania. These revolutionary events understandably captured world attention, and from Poland's perspective, hastened and increased the interest of foreign investors.

### **The Agency Function Develops**

The increased interest by Western companies in seeking business opportunities in Poland provided a new set of opportunities for Batax. Most Western companies, being new to the Polish market and realizing the tremendous differences that existed between their way of doing business and the Polish way, sought a knowledgeable local partner. Batax, with a profitable track record, established offices and staff and well-developed contacts, became one of the most sought after candidates. Batax also entered into a joint venture with one of Poland's most established international lawyers, Tomas Wardinski, further enhancing its position.

The agreements entered into with the various companies took different forms and served different functions, although generally



speaking, they all included exclusive representation by Batax in Poland as well as a percentage of profits earned. Below is a partial list of representations Batax has obtained to date:

Longman - exclusive rights to sell Longman's English language textbooks and dictionaries in Poland.

Millicom - joint venture with Millicom to bid on an estimated \$150 million cellular telephone franchise for Poland.

Thomson - representation of Thomson in its negotiations to purchase Polkolor, a major Polish television picture tube producer.

Hayworth - exclusive rights to sell Hayworth's office furniture in Poland.

### **The Berlin Wall Falls - Another Arbitrage Opportunity**

Another major, if temporary, business opportunity for Batax resulted from the fall of the Berlin Wall. The decision to unify East and West German necessitated the transition to one currency. As part of its transition policy, the German Monetary Union fixed an exchange rate of DM2.34 per transferable rouble. At the same time the exchange rate was between 500 zloty and 1000 zloty per transferable rouble. The difference presented potential arbitrage profits

of eight to one.

Batax obtained transferable roubles from the sale of goods to the Soviet Union as well as buying them on the open market in Poland. It then used the transferable rouble to buy East German goods which primarily consisted of refrigerators, television sets, and shoes (3 million pairs). Ultimately, goods with a value of over \$40 million were purchased from East Germany at a cost of approximately \$5 million. The opportunity was a temporary one, ending on January 1, 1991 when all trade transactions among COMECON countries began to be denominated in hard currencies. Nevertheless, the window provided tremendous profit opportunities for Batax as well as many other Polish entrepreneurs. The Polish Chamber of Commerce estimates that \$3 billion was made by Poles in such transactions.

### **Privatization**

As stated, one of the principal goals of the Polish government was the rapid privatization of state-owned enterprises. The privatization would take place on two levels:

- 1) National level, which pertained to the privatization of the large state enterprises. The national level privatizations have only begun to take place, with only five state enterprises privatized to

date. Major complications associated with the privatizations have yet to be addressed, including the following issues:

- Who actually owns the firms? - the government, the workers, the general public.
- How will the firms be privatized? - on a case-by-case basis, through the privatization of industry sectors, through a voucher scheme, distributing ownership vouchers to the general public.
- how will the firms be evaluated, since current balance sheets and income statements are virtually meaningless?
- how to create the most efficient administrative and distribution infrastructure, neither of which currently exists?

At present, the Ministry of Ownership Changes is still weighing its alternatives regarding the mass privatization. It plans, as a first step, to transform all state-owned companies to into state treasury-owned joint stock companies by the end of 1992. This will create a legal base for the actual privatization of the companies, once a course of action and time frame has been finalized.

2) Local or municipal level, which pertained to the privatization of various government real estate holdings, primarily land,

office buildings, cultural institutions and small retail shops. Substantial privatization has already occurred at the local level, with over one half of Polish retail outlets (approximately 60,000 stores) privatized to date.

Privatization presented yet another opportunity for Batax. Batax's primary focus to date has been on the local level privatizations. The process is relatively straightforward, typically involving a public announcement in the local press followed by a bidding process. Batax's acquisition strategy has been to focus on prime real estate property in Warsaw. Within this general guideline, it has pursued three types of acquisitions:

1) Office buildings, and land in prime locations with the intention of making capital improvements and anticipating significant capital appreciation.

2) Retail establishments in Warsaw. These are being acquired for two main reasons:

- to support some of Batax's existing operations. Specifically, these retail establishments, will serve as distribution outlets for Batax's Western partners' products, such as Longman textbooks and Hayworth office furniture. It is also an outlet for the products received from its transactions with East Germany, as described above.

● to establish services that the city lacks. A fast food restaurant chain has been targeted as the next project.

3) Theatres. As will be described, Batax has moved into the cultural sphere and consequently, is pursuing ownership of theatre space.

### **The Move into Theatre - Changing Poland's Cultural Face**

One of the most unusual opportunities presented to Batax related to the changing state of Polish culture. Poland's cultural life had traditionally been another example of a state monopoly. In order to be an actor, for example, one had to apply to one of the state acting schools. The schools were considered quite prestigious and entry was very competitive, based on examinations, auditions, portfolios and often connections. The prestige was derived from the fact that actors were considered an elite, enjoyed relatively high salaries and had opportunities to travel abroad. Once an aspiring actor was accepted, he went through a rigorous four year program, similar to an undergraduate program, with a strong focus on acting and theatre.

Upon finishing his studies, the actor was guaranteed a job at one of the theatres, television studios or film studios - all

controlled by the state. Only actors graduating from the state acting schools could obtain these acting jobs and thus it became a type of protected club. Furthermore, these cultural and entertainment institutions were fully subsidized, removing all profit incentives. The approach had its benefits in that actors and directors could exercise creative freedom without worrying about the financial consequences of a commercial failure. On the other hand, the acting world by virtue of being a closed one, tended to stifle creativity since no new blood, which could inject the system with different ideas and experiences, was allowed to enter. The lack of competition also resulted in a type of inertia in terms of moving in a new creative direction. Finally, the high degree of state control enabled a certain degree of censorship to exist. This was not always true, since Polish theatre was well-known for its political statements against the government, but the fact remains that censorship and propaganda in culture did exist to a strong degree.

After the elections of 1989, the state's grip on culture began to loosen. The new government's philosophical commitment to increased democracy enabled the loosening to occur, but the immediate reason was simply a lack of money to continue subsidizing culture at previous levels. Batax

both exploited the situation and played a decisive role in hastening the beginning of a new more competitive environment.

Batax's entrance into Poland's cultural sphere began on the basis of a personal relationship between Kubiak and two established Polish artists - Janusz Josefowicz, choreographer, and Janusz Stoklosa, composer and musician. Both artists were young (mid-thirties) and well-established in Poland's artistic circles, considered among the best in their respective fields. Both expressed the same frustrations of not knowing how to further develop themselves - they had reached the pinnacle of what existed in their professions and were restricted from changing the environment and creating something new. Both had the same artistic vision - staging Poland's first Broadway-like musical. The vision, however, faced many obstacles, primarily, 1) lack of support from existing institutions, 2) lack of people trained to perform in musicals (Polish artists either sang, danced or acted but seldom could do all three), 3) laws restricting them from looking to outside sponsorship and talent and 4) lack of interested sponsors with the financial wherewithal and business acumen.

With the election of the new government, the opportunity seemed ripe for Stoklosa and Josefowicz to

pursue their vision. They obtained Batax's financial backing and, equally important, Kubiak's support and know how in business and organizational matters.

After script and score were finalized, the group faced its first hurdle - finding a cast. They decided to hold nationally advertised auditions. The auditions were a major departure from the existing system and in a sense, a historic event, for it was the first time in forty-five years that there were no restrictions on who could try out for a part. Approximately 3000 individuals from all parts of the country auditioned. Sixty were selected, all between the ages of 18 and 35 and most without prior professional experience.

The next hurdle involved training the cast. The group needed to establish a school to help the cast attain a minimal level of expertise in singing, dancing and acting. As previously mentioned, Poland's artists typically specialized in one of these disciplines and there was no infrastructure existing to train people in all three. The school was set up in an Olympic training center in Warsaw where the group lived and worked for four months. After training a second set of auditions were held and the cast was further reduced to thirty-five people.

It was only at this stage that rehearsals for production began. In

addition to investment in training, other significant investment needed to be made in order to raise the quality of the production to Western standards, primarily in sound and lighting equipment and costumes.

The next hurdle related to obtaining a theatre for the performances. While initially, Kubiak planned on renting a theatre, it became apparent that the theatre required significant investment to bring it up to Western standards. To protect his investment, Kubiak proposed to either buy the theater or enter into a long term lease. The proposal was greeted with strong opposition by the established artists. They strongly lobbied the Ministries and other governmental authorities to prevent such a transaction. Ultimately, a smear campaign was targeted against Kubiak and his group under which among other things, Kubiak was branded a "killer of culture."

The situation arose because of the threat the new production posed to the monopoly held by the established artists. The original auditions, which were widely publicized, were the first threat to the previously described structure. The purchase of a theatre, which was at the time de facto controlled by the artists, would set another dangerous precedent that would further challenge their power base.

Kubiak responded by purchasing a one page advertisement in the major local newspapers, explaining what he was doing and why he felt he was being smeared. His rebuttal appeared to obtain wide public support.

At the same time, the question regarding who actually owned the theatre arose. This became a common question in Poland once the privatization process began to take place. Recently (April 1991), it was decided that the city of Warsaw owned the theatre and that it had the authority to sell it. Since the city is facing severe financial problems, the sale of the theatre to Kubiak is expected to take place.

The production, named METRO, premiered on January 29, 1991. It received both national and international coverage that was generally very favorable. All of its performances have been sold out since, despite a ticket price of approximately \$10.00, which is four to five times the price of tickets for other cultural events in Warsaw.

#### **BATAK'S FUTURE STRATEGIC FOCUS**

Wiktor Kubiak, awakening from his reverie, returned to the issue at hand - how to meet the challenge of future competition. He considered a threefold strategy that he had been incrementally developing over the recent

months of hyperactivity. It is summarized below:

1) to focus on selected businesses and consolidate Batax's position in them.

2) to remain in existing smaller businesses while they are still profitable, but limit investments in them.

3) to continue to take advantage of Poland's transition period by remaining open to unforeseen opportunities.

The first and most important strategy focus was a logical and direct response to the competitive challenge the entry of multinationals presented. It stems from the need to develop a strong enough presence in chosen businesses to successfully compete head-on with these new entrants.

Kubiak further targeted three main areas on which to focus: the performing arts, finance and real estate. He determined these to be the areas where Batax had a defensible position over the long run. Specific strategies in each area are detailed below:

**THE PERFORMING ARTS** - The success of METRO gave Batax significant experience, contacts and visibility in Poland's artistic circles. At the same time the break-up of the state monopoly in the cultural sphere provided a window of opportunity. Future plans for Batax in this sphere include the

translation of METRO into English with the intention of bringing it to the London stage and ultimately to Broadway. What Batax hopes to accomplish with METRO in a broader sense is to give Poland and itself a stronger presence on the international theatre scene. Batax will also attempt to buy theatres in Warsaw as they become available to strengthen its presence within the city. Finally, it will diversify out of theatre into the production of videos and musical recordings, with the score from METRO being its first venture in this field.

**FINANCE** - While financing continues to remain elusive to Polish state-enterprises, Batax will continue its current lending activities through its Luxembourg office. Additionally, it is positioning itself for the future by establishing a joint venture with a Danish investment bank, Sancta Ana Bank. The two firms have formed their own investment bank in Warsaw, the Polish Investment Bank (PIB).

PIB will initially focus on providing various services - advisory, evaluation, and financial services - related to the privatization of the state-owned enterprises. PIB appears well-positioned for this business relative to the competition given Kubiak's close contacts and knowledge of these enterprises, garnered from his previous financing businesses, combined with Sancta Ana Bank's investment banking

experience. Sancta Ana Bank has already been involved in one of the five privatizations that have taken place, that of Slaska Fabrika Kabli (Silesian Cable Factory). Additionally, both Kubiak and one of the partners of Sancta Ana Bank, Krister Zorde, are advisors to the Minister of Ownership Changes.

In addition to services associated with the privatizations, PIB will provide money management services to Polish firms. These services will fill an existing gap, since Polish firms are fairly naive as to how to invest their money to obtain a reasonable return. In conjunction with its money management services, it will trade foreign currency, specializing in the zloty, and trade Polish stocks, once a secondary market develops.

REAL ESTATE - Batax will continue to purchase prime real estate as it becomes available, identify what it considers its best use, and develop it.

The second strategy focus, that of limiting investments in minor businesses, is also a response to impending competition. Whereas previously, the gunshot approach of pursuing a multitude of projects was warranted due to minimal competition and low costs associated with the approach, the situation has changed and it no longer makes business sense. Batax has determined

that any project will require a substantially large investment to succeed in the new competitive environment. Given its own financial constraints, it must limit the number of businesses in which it engages.

The third strategy focus, to remain open and flexible, reflects the fact that Poland remains a frontier, and this in itself presents substantial unforeseen business opportunities that should not be neglected.

Kubiak, pleased at having developed a strategical framework, rose from his desk, ready to face the forthcoming challenge.

EXHIBIT 1

ESTIMATED FINANCIAL DATA ON BATAX LIMITED

(\$000)	1985	1991
SALES		
Manufacturing Operations	6,500	2,500
Trading Operations	30,000	280,000
Finance Operations	n/a	100,000
Real Estate	n/a	n/a
METRO	n/a	300
Retail and Distribution	n/a	35,000
OPERATING PROFITS	3,000	80,000
ASSET (Market Value; primarily real estate)	2,000	300,000

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EMPLOYEES	130	700
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EXHIBIT 2

GENERAL INFORMATION ON POLAND

	1988	1989	1990
POPULATION	37.8	37.9	37.9
LABOR FORCE	17.4	17.3	n/a
GNP (BILLION 1985 \$\$)	255	255	249
GNP PER CAPITA (CURRENT \$\$)	6,746	6,728	6,385
GNP (REAL % CHANGE)	4.1	0.1	-5.0
STATE BUDGET DEFICIT (% OF GDP)	1.4	8.1	0.8
GOVERNMENT SUBSIDIES (% OF BUD EXPENDITURES)	43	36	17.5
INFLATION (% CHANGE )	60	244	395
REAL WAGES % CHANGE)	15	7	-31
TOTAL IMPORTS (MILLION \$\$)	13,948	12,552	n/a
TOTAL EXPORTS (MILLION \$\$)	12,233	11,106	n/a

Source: U.S. Department of Commerce

### Exhibit 3a

## Structure of Foreign Trade under Communist Regime

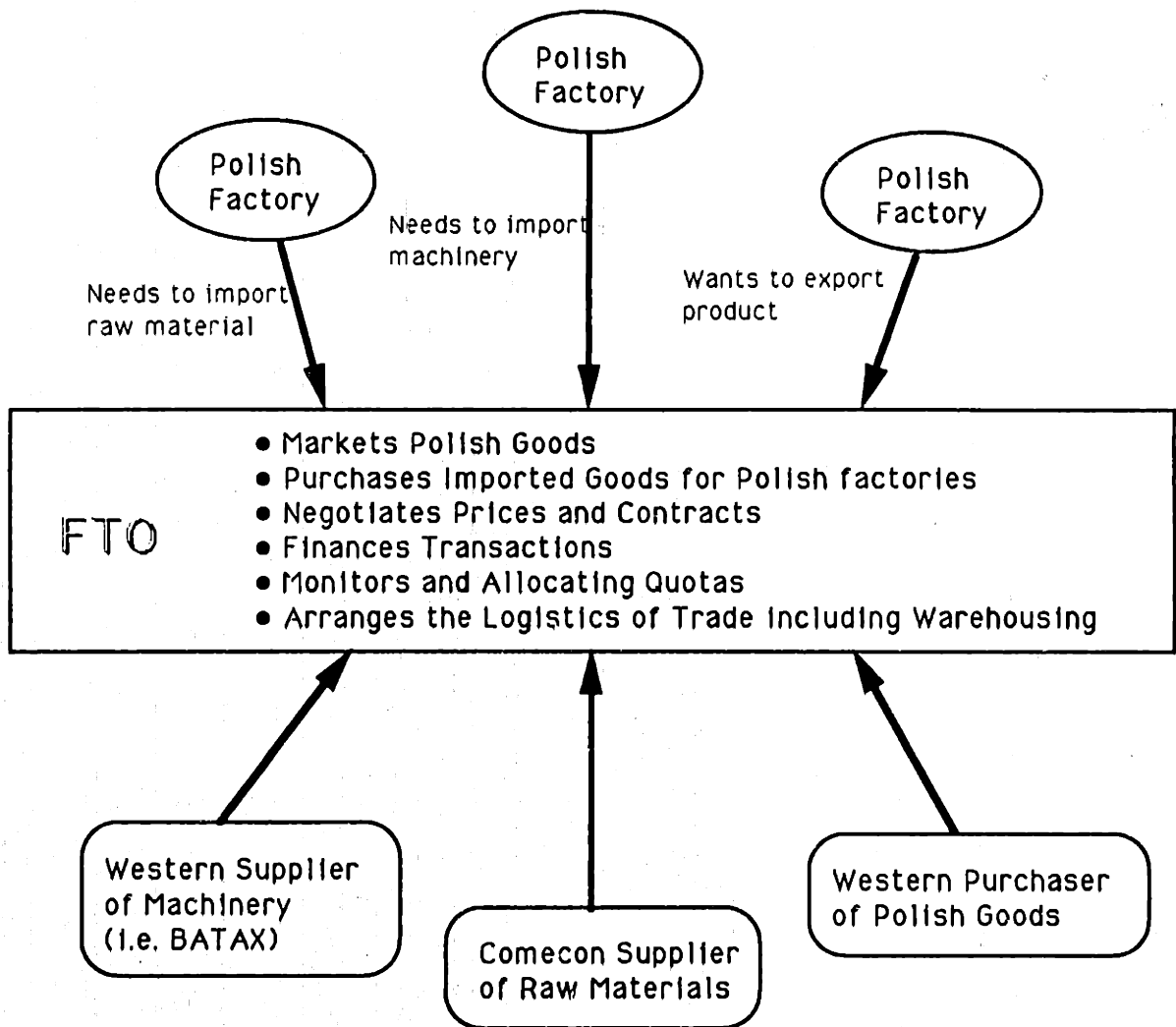
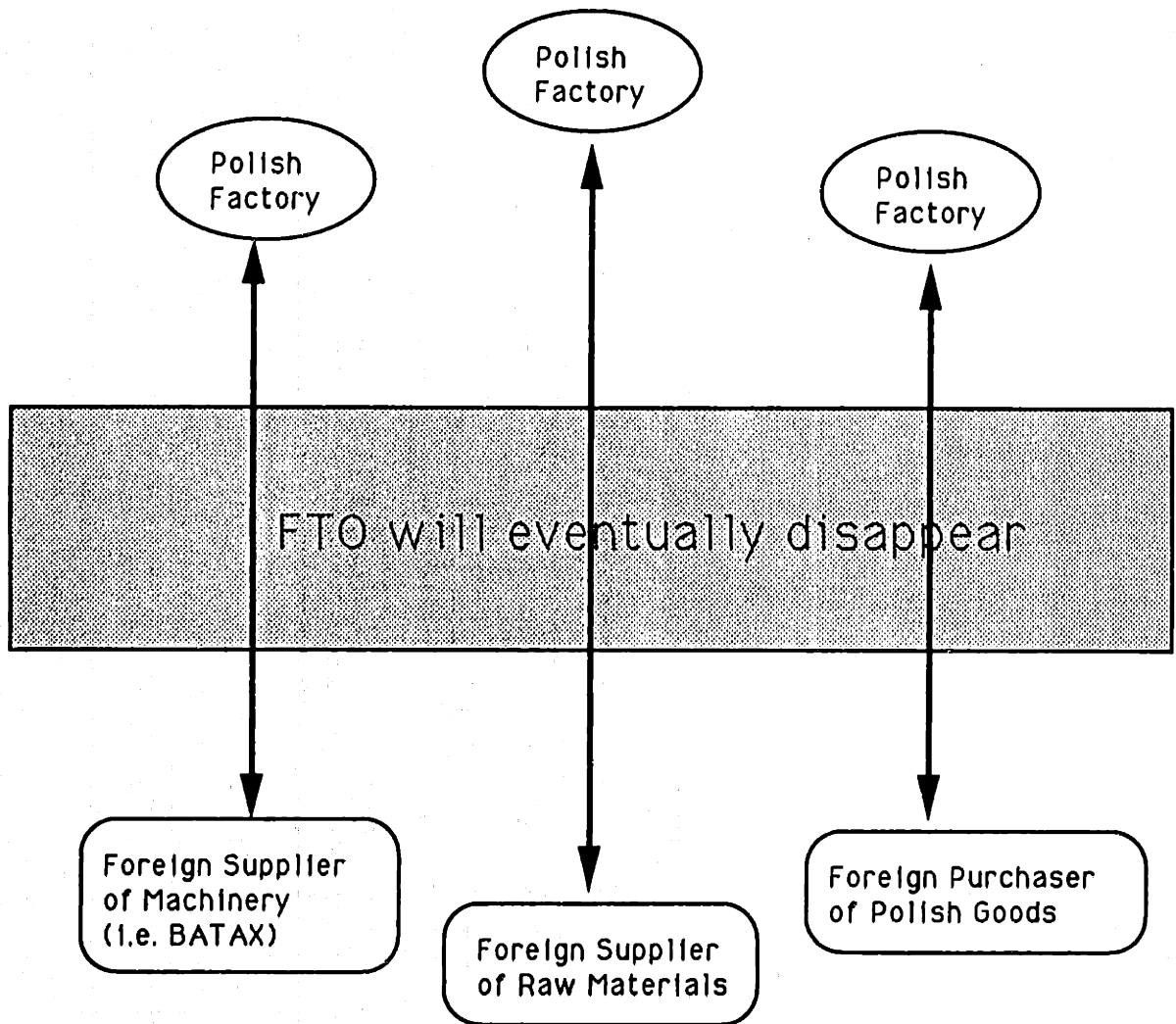


Exhibit 3b

Trade Structure Envisioned after 1990 Reforms

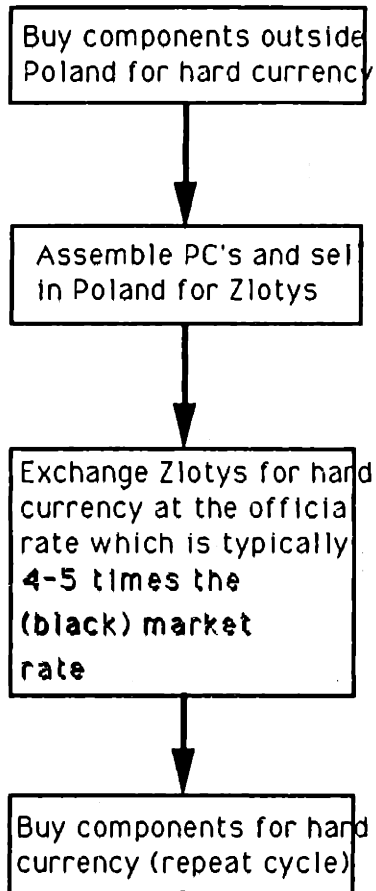


# Exhibit 4a.

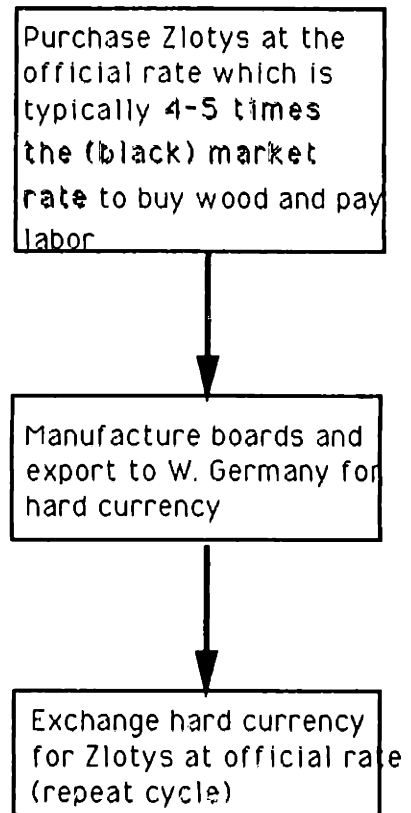
## Circumventing Currency Restrictions: The Complementary Nature of Personal Computers and Laminated Boards

Transaction flows when personal computer  
or laminated board business is pursued  
separately

### Personal Computers



### Laminated Boards

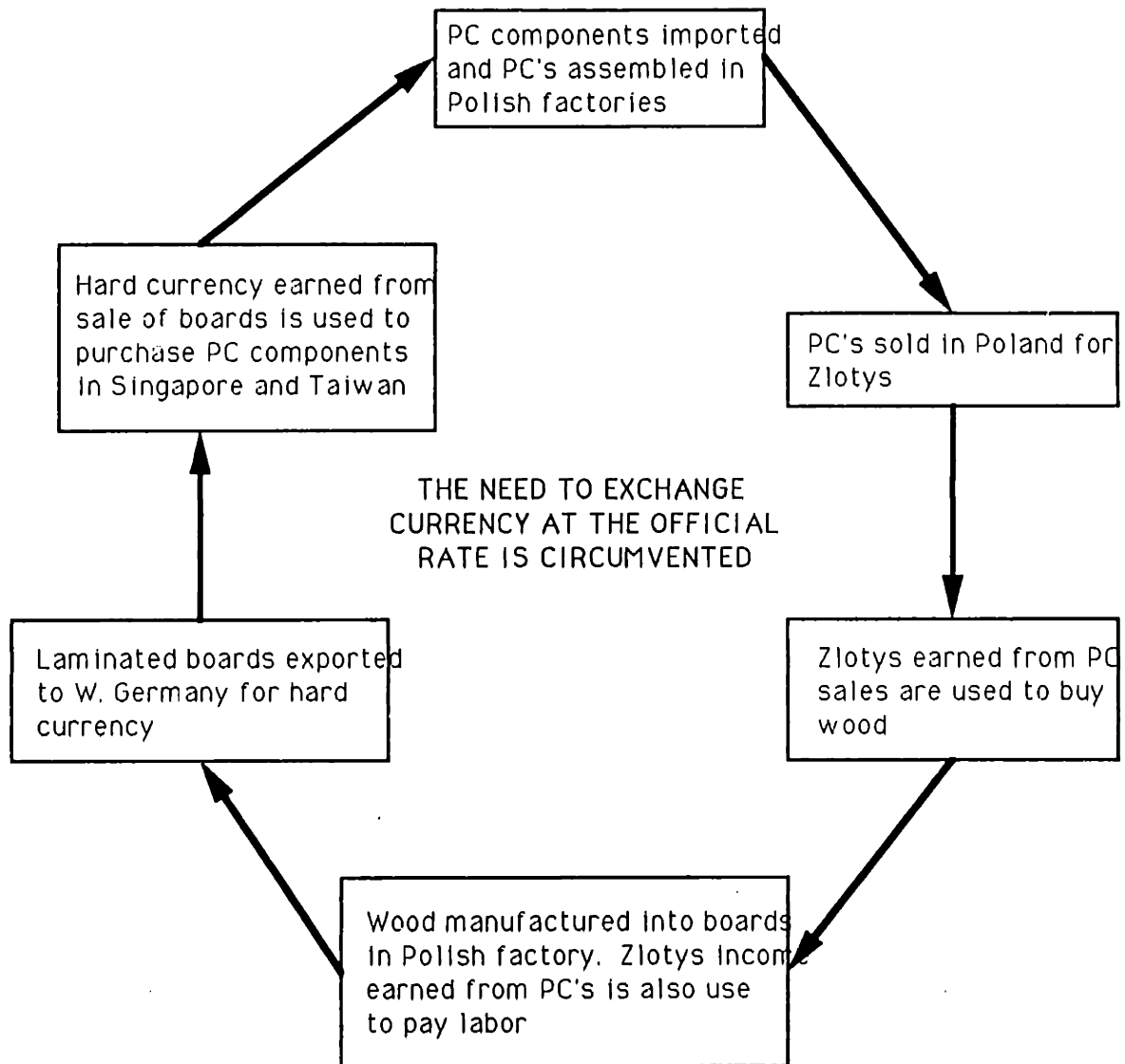


Each business pursued separately is **UNECONOMICAL** because of the need to exchange currency at inflated official rate

## Exhibit 4b.

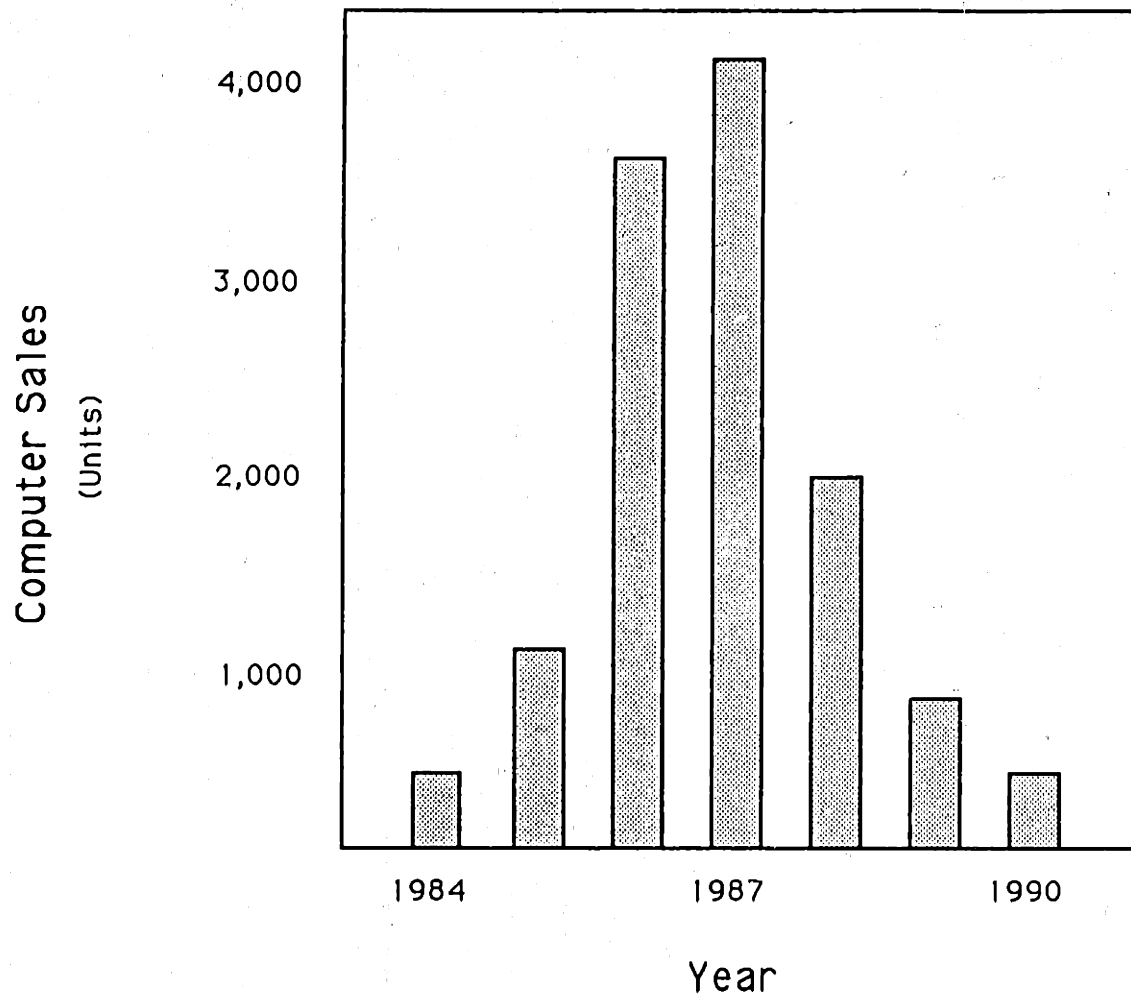
# Circumventing Currency Restrictions: The Complementary Nature of Personal Computers and Laminated Boards

Transaction flows when personal computer  
and laminated board businesses are  
pursued jointly



## Exhibit 5:

### Rise and Fall of Batax's Computer Business



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Interviews were conducted with the following individuals:

Roman Goscik, Manager, Soviet Businesses  
Janusz Josefowicz, Director and Choreographer, METRO  
Mr. Kozlowski, Manager, Laminated Board Operations  
Wiktor Kubiak, Owner, Batax Limited  
Bogdan Lewandowski, Manager, Luxembourg Office  
Janusz Stoklosa, Composer, METRO  
Kazimierz Tuzinski, Manager, Computer Operations  
Janusz Andrzej Wajs, Public Relations, Batax Ltd.  
Tomek Wardinski, Lawyer and Joint Venture Partner with  
Batax Limited  
Krister Zorde, Partner, Sancta Ana Bank and Joint Venture  
Partner with Batax Limited

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