

UNIVERSITY OF SZEGED FACULTY OF ECONOMICS

Doctoral School of Economics

*Zsolt Fenyővári*

**Institutions, property rights and Pick Szeged Plc.**

The doctoral dissertation's theses

Supervisor:

**Prof. Dr. Éva Voszka**

University of Szeged Faculty of Economics

Szeged, 2013

## Table of contents

1. Choosing the topic.....	3
2. Objectives and hypotheses .....	4
3. Conceptual framework .....	5
4. The structure of the dissertation .....	7
5. Methodology .....	8
6. Results .....	9
7. Scientific publications .....	12

## 1. Choosing the topic

Determining the research topic was motivated by both objective and individual factors:

1. The first wave in higher education concerning economics in Hungary after the end of communism has been the new neo-classical revolution. Intentions to include lesser known but significant economic views into higher education and university research appeared in the second phase of this paradigm shift. One of these views was the New Institutional Economics which is a fundamental component of the modern theory due to the wide range of phenomena it covers and its achievements (and the number of Nobel Memorial Prize winners.)
2. The social and economic changes brought about by the end of communism, along with a prolonged transition period after it called for an institutional solution – the institutional system that had evolved through hundreds of years within stable and democratic economies would have to be recreated by the affected economies in two or three decades altogether.
3. Theoretical economists are often asked to speak in realistic terms both by the members of the general public and by other economists as well. With the help of an interdisciplinary research conducted from an institutional point of view, we might be able to reconcile the passionate supporters of this theory with the agnostics.
4. As one of the most significant fields of research within New Institutional Economics, the economic theory of property rights provides an especially useful set of tools for describing the changes that took place in Hungary in the past 35 years.
5. Based on the above described factors, empirical methods on the one hand give practical meaning to theoretic thought, while on the other hand they verify it. This twofold objective is achieved through the descriptive statistical analysis of the property rights system of market economies and the Pick Szeged case study following it. The inclusion of this case study hardly needs justification as the company's traditions, size, market share, international reputation, ownership changes around the millennium and present position within its sector provide quite a number of reasons for the topic's inclusion, not to mention that the Faculty of Economics at the University of Szeged has not yet provided a history of ownership concerning the greatest economic representative of its home city.
6. As a strong supporter of neo-classical economics I attempted to cover a relatively young school of economic thought that utilizes a terminology and analytic apparatus greatly compatible with that of the orthodox theory.

7. My understanding of the possibilities within New Institutional Economics was aided greatly by a scientific trip to St. Louis along with a number of other visits to conferences in Europe and in the USA. On these trips I have had a chance to familiarize myself with the ideas of the greatest figures representing this particular school of theoretic economics.

## 2. Objectives and hypotheses

### *Objectives*

1. Drawing attention to a phenomenon often ignored by mainstream branches of theoretic economics, namely that institutions have a strong influence on efficiency in connection with relationships within an organization, specific markets or the regulation of the macroeconomic environment.
2. Property rights are especially important in the world of institutions. The dominance of private property alone does not necessarily ensure efficiency since private property-based institutions today display a wide range of ownership structures among which we find numerous organizational arrangements that meet our expectations of welfare to different degrees of intensity, not to mention the existence – and at times inevitable necessity – of state ownership.
3. In addition to my theoretic approach, my equally emphasized objective is to present this wide variety of ownership structures from a practice-oriented point of view, with the help of
  - the descriptive analysis of Hungarian market economy and the property rights system, and
  - a case study concerning a large scale Hungarian company, Pick Szeged Plc.'s history of ownership.

### *Hypotheses*

My hypothesis based on **chapter 4** (descriptive statistics) is the following:

**H1:** Based on the investigated indicators there is a demonstrable, yet intensity-wise different connection between the welfare contributions of conglomerates with different ownership structures.

Hypotheses based on the Pick Szeged case study:

**H2:** The data showing the revenue, employment, profit, investment and credit dealings of the company not only reflect the economic expansion and recession trends within the

investigated period but they also demonstrate the changes that were taking place in the ownership structure of the company in that same time period.

**H3:** Although the case study does not solve the dilemma of professional versus financial investors but it provides numerous – mostly depressing – lessons on the subject.

**H4:** The distinction between „foreign” and „domestic” in connection with the evaluation of investors is an unpractical one on its own, and consequently can not be a particular preference of the public will governing privatization.

### **3. Conceptual framework**

New Institutional Economics does not go against the fundamental way of approach and methods traditionally adopted by the neo-classical school. The same can naturally be said about the economics of property rights. In accordance with this the present paper utilizes the marginalist terminology and analytic apparatus of standard economics which are supplemented by key concepts of NIE and by a few important categories of organizational economics required for the empirical study. The most important special concepts used in this dissertation are the following:

***Institutions:***

If we look at the economy like a game then the rules of the game are the institutions. According to this, every legal, political, socio-cultural and economic organizational factor that has an influence on the behavior of economic actors and the allocation of resources is an institution. Some of these may be considered exogenous variables from the point of view of this study (for example religion, traditions and legal conditions), while others may be seen as the actual model's endogenous factors (for example the chosen company structure, the organization of production methods or market relationships).

***Transaction costs:***

Costs in the traditional sense of the word arise when inputs are transformed into output through production. On the other hand, production in the wider sense of the word does not only include the physical transformation of inputs into output but also the transfers between the inputs' owner and the buyer of the final product. In this sense costs incurred along the transformation function may be called transaction costs.

In the words of Douglass North „...Transaction costs are the costs of the land, labour, capital and entrepreneurial skill required to transfer property rights from one person to the other”.<sup>1</sup>

Arrow's approach understands transaction costs as the total costs of operating an economic system.<sup>2</sup>

Transaction costs in many instances mean the costs of the channel of distribution because most changes in property rights occur along the input and output channels. In a wider (and more accurate) sense this category includes all the costs incurred by the preparation, signing, realization and monitoring of contracts. On a micro-level this entails most marketing-, public accountancy-, logistic-, company administration- and legal representation costs, and also such macro-level factors as financial and insurance system costs or the costs of operating the government sector.

### ***Property rights:***

This concept may not be condensed into one single definition containing every important detail. In the light of this, I decided to represent the category's core contents by the classic legal elements of property rights. These are the following:

- a) the right of usage (*usus*),
- b) the right of enjoyment (*usus fructus*),
- c) the right of alteration (*abusus*), and
- d) the right of alienation, or the alienation of property rights.

### ***The softening up of property rights:***

If any of the above mentioned rights is breached so that the owner to a certain extent is prevented from exercising his/her property rights (may this be a major or a minor lesion) we have an instance of restriction or softening up of the property. Only the simultaneous presence of all four above mentioned rights (a – d) guarantee the philosophical, legal and economic authenticity of the given property.

---

1 Mátyás A. (1996): A hagyományos közgazdaságtan bírálata és kutatási körének kiszélesítése az új intézményi iskola képviselői részéről, *Közgazdasági Szemle*, 7-8.

2 Arrow, K. J. (1974): *The Limits of Organization*. Norton, New York

***Professional investor:***

From the point of view of a given company “A”, a professional investor is either an actual or potential owner whose basic activity in the real economy falls in the same category as that of company “A” or when the basic activity of company “A” is compatible with its production vertikum.

***Financial investor:***

A financial investor is a professionally neutral economic actor that

- o only plans for short term and aims at profitably selling his/her obtained share of the company at the end of a given time period, or
- o bases his/her decision of selling or keeping his/her share of the company solely on the long term profitability associated with the financial instruments representing it.

## **4. The structure of the dissertation**

### **1. INTRODUCTION**

### **2. THE INSTITUTIONS (page 6-42)**

- a) Historical changes in institutional thinking
- b) The New Institutional Economics
- c) Schools within New Institutional Economics
- d) The New Institutional Economics and other theoretical branches

### **3. PROPERTY RIGHTS (page 43-102)**

- a) The theoretic and philosophical content of property
- b) The most important pillars of modern economies
- c) Exchange
- d) Bargain
- e) The company
- f) Privatisation

### **4. THE PROPERTY RIGHTS OF THE COMPETITIVE SECTOR, THE FOOD AND MEAT PACKING INDUSTRY IN THE HUNGARIAN ECONOMY (page 103-133)**

- a) The ownership structures of competitive economies
- b) The ownership structures of the food industry
- c) The ownership structures of the meat packing industry

## 5. PROPERTY RIGHTS AND PICK SZEGED PLC. (page 134-190)

- a) The status of Pick Szeged in the Hungarian economy
- b) Pick's history of ownership up to the end of its primary privatisation
- c) Pick's secondary privatisation
- d) 1999-2004: the activity of *Arango* in Szeged
- e) Pick's status after 2004

## 6. SUMMARY, CONCLUSIONS

### 5. Methodology

Chapters	Sources	Research methods
<b>2. Institutions</b>	<ul style="list-style-type: none"> <li>• Journal articles</li> <li>• Book excerpts</li> </ul>	<ul style="list-style-type: none"> <li>• The interpretation of the sources</li> <li>• Comparative critical analysis <i>(schools of economic thought)</i></li> </ul>
<b>3. Property rights</b>	<ul style="list-style-type: none"> <li>• Journal articles</li> <li>• Book excerpts</li> </ul>	<ul style="list-style-type: none"> <li>• The interpretation of the sources</li> <li>• comparative critical analysis <i>(types of companies and privatization)</i></li> </ul>
<b>4. The competitive sector,...</b>	The competitive statistical database of the Hungarian Competition Authority	Descriptive statistical analysis based on six indicators between 2004 and 2008
<b>5. Property rights and the Pick company</b>	<ul style="list-style-type: none"> <li>• Statistical databases</li> <li>• personal interviews</li> <li>• company documents</li> <li>• press releases</li> </ul>	Critical analysis of past events



## 6. Results

### Chapter 4 – descriptive statistics

My most important findings in connection with hypothesis **H1**:

- a) The number of actors cannot be an explicit trait of differentiation. The relative stability of the number of private owners implies an acceptably efficient management.
- b) Based on employment data the relative over-employment of the government sector indirectly suggests reduced efficiency.
- c) Total revenue figures are not suitable for proper investigation. On an average revenue-per-employee basis the advantage of domestic and foreign private property may be demonstrated.
- d) Data concerning capital stock support my presumption about the advantage of private property (weakening government positions, increasing domestic private capital and dominance of foreign ownership).
- e) Domestic and foreign capital – especially in the meat packing industry – is almost the only component of the investment market and highly sensitive to economic fluctuations.
- f) Payback data are rhapsodic. The usual expectations were best achieved by domestic private property while state-owned property and foreign capital performed weakly, especially in the meat packing industry.

**H1** has been accepted as proven.

### Chapter 5 – the Pick Szeged Plc. case study

My most important findings in connection with **H2**:

- a) Between 1998 and 2004 the economy – with the meat packing industry within it – was going through a period of economic expansion.
- b) Between 1998 and 2000 Pick Szeged demonstrated a stable and favorable profitability trend, while the same could not be said about the remainder of the meat packing industry.
- c) Between 2000 and 2002 the profit made by Pick Szeged and by the meat packing industry decreased more or less proportionately, after 2003 it was negative for both.
- d) While the meat packing industry's annual losses decreased by almost 50% by 2004 (excluding Pick Szeged), Pick's losses increased more than thirteen times.

e) Pick Szeged between 1999 and 2003...

- o fell thirty one places on the economic magazine Figyelő's TOP 200 list,
- o produced HUF 2.6 billion less annual profit,
- o downsized the number of employees from 4658 to 3179 people,
- o lost HUF 11.3 billion of equity decreasing from HUF 25.97 billion to HUF 14.67 billion,
- o decreased its HUF 4.0 billion profit before taxes in 1998 to HUF – 325 million in 2003.

Based on conclusions drawn from the databases **H2** has been accepted as proven.

My most important findings in connection with **H3**:

- a) The strategic preferences of a professional investor concern sustainable profitability and increasing wealth while the preferences of a financial investor are less clear.
- b) With divided ownership and restricted voting rights the presence of a financial investor ensures the survival of the company in the long run.
- c) The management's willingness to accept financial investors is considerably larger than towards a professional investor because...
  - o the management hopes that the financial investor may provide additional resources,
  - o this method provides a less painful way of sustaining a company than applying for a loan,
  - o the management counts on the expertise of the investor on the financial market,
  - o this method makes it possible for the management to make professional decisions freely.
- d) If the financial investor obtains the majority of the shares, the strategic considerations will be overridden by short term, narrow minded and speculative financial interests and manipulation.
- f) The goal of a financial investor owning the majority of the shares is to extract resources.
- g) The behavior of a financial investor as an owner may change in accordance with the declared and real objectives of the company – professional decisions are made to facilitate financial considerations.
- h) The lack of activity is not a definitive characteristic of a financial investor, and the type of ownership may sometimes only be definable based on his/her actual behavior.

*i)* This contrast between the responsible professional investor and the deeply profit oriented financial investor (in favor of the professional one) is also apparent in the field of workforce management.

The involvement of financial investors is only advisable when their financial contribution is paired neither with majority ownership nor with professional activity. **H3** has been accepted as proven.

My most important findings in connection with **H4**:

- a)* Based on the experiences of Pick Szeged's privatization we can draw no general conclusions concerning the food industry as a whole.
- b)* The increase in domestic capital stock can mostly be attributed to foreign investors.
- c)* The increase in competitiveness on the level of single companies due to the appearance of foreign capital is beyond debate.
- d)* The circle of foreign owners after the primary privatization of Pick Szeged did not interfere with the management of the company apart from the dividend-oriented financial structure.
- e)* There is no reason to suspect the intention of financial speculation on the part of the foreign institutional investors.
- f)* The foreign investors' activities at the stock exchange were not necessarily connected to efficiency of the company's management.
- g)* Foreign professional investors may endanger the existence of the previous management.
- h)* The short and long term sensitivity of foreign investors to economic fluctuations show different characteristics mainly in favor of employees threatened by these fluctuations.

In the light of the above described factors we may conclude that...

- the categories of domestic vs. foreign cannot be a definitive criterion of determining a company's investor/owner, while
- the competitive (welfare) advantages of foreign (especially professional investorial) ownership exceed the associated social sacrifices.

**H4** has been accepted as proven.

## 7. Scientific publications

### 1. Journal articles

- a) Fenyővári Zs. – Lukovics M. (2008): *A regionális versenyképesség és a területi különbségek kölcsönhatásai*. Tér és társadalom 2. 1-20. o.
- b) Lengyel I. – Fenyővári Zs. (2010): *Az Észak-magyarországi és a Dél-alföldi régiók versenyképességének főbb mutatói*. Észak-magyarországi stratégiai füzetek VII. évfolyam 1. 3-17. o.
- c) Lengyel I. – Fenyővári Zs. – Nagy B. (2012): *A közelség szerepének újraértelmezése az innovatív kapcsolatokban*. Vezetéstudomány 3. 19-29. o.
- d) Fenyővári Zs. – Voszka É. (2013): *Tulajdonosi szerkezet és vállalati teljesítmény – a Pick esete*. Külgazdaság 11-12. közlésre elfogadva

### 2. Peer reviewed studies

- a) Czagány L. – Fenyővári Zs. (2000): *Kompetitív előnyök keletkezése fundamentális transzformáció révén*, In. Farkas B. – Lengyel I. (szerk.): *Versenyképesség – regionális versenyképesség*, Szeged, JATEPress. 88-99. o.
- b) Fenyővári Zs. (2002): *Teljesíthető-e az inflációra vonatkozó maastrichti konvergencia-kritérium*, In. Hetesi E. (szerk.): *A közszolgáltatások marketingje és menedzsmentje*, Szeged, JATEPress. 283-291. o.
- c) Fenyővári Zs. (2004): *Fogyasztói racionalitás és versenyszabályozás*, In. Czagány László – Garai László (szerk.): *A szociális identitás, az információ és a piac*, Szeged, JATEPress, 316-326. o.
- d) Czagány L. – Fenyővári Zs. (2008): *Inaktivitás és mezőgazdasági munkavégzés a vidéki Magyarországon*, JATEpress, Szeged, In. Lengyel I. – Lukovics M. (szerk.): *Kérdőjelek a régiók gazdasági fejlődésében*. 167-173. o.
- e) Czagány L. – Fenyővári Zs. (2008): *Munkapiaci tendenciák a Csongrádi kistérségben*, In. Buday-Sántha – Hegyi – Rácz (szerk.): *Önkormányzatok gazdálkodása – helyi fejlesztés*. Pécs, 311-316. o.
- f) Fenyővári, Zs. (2009): *Economic theories, institutions, regional competitiveness*. *Annals of the Faculty of Engineering Hunedoara – Journal of Engineering*, 3. 78-82. o. (ISSN 1584 – 2665)

### 3. Conference presentations

- a) Czagány, L. – Fenyővári, Zs. (2002): The Balassa-Samuelson Effect in the Hungarian Economy with Particular Focus on the Convergence Criteria of the Maastricht Treaty, The I<sup>st</sup> International Symposium “Economics and Management of Transformation”, May 11 Timisoara, Romania,
- b) Fenyővári, Zs. – Nagy, B. (2004): Competition Control and Consumer’s Rationality, The II<sup>nd</sup> International Symposium “Economics and Management of Transformation”, May 7-8, Timisoara, Romania,
- c) Czagány, L. – Fenyővári, Zs. (2005): The Mundell-Fleming Model and the Opportunities of Hungarian Economic Policy before the Accessing the EMU, The Impact of European Integration on The National Economy October 28 – 29, Cluj-Napoca, Romania
- d) Fenyővári, Zs. – Nagy, B. (2006): The Role of Proximity in Regional Economic Development, Sustainable Development in the Old Industrial Regions of Europe, May 19-21, Timisoara, Romania, West University Timisoara
- e) Czagány, L. – Fenyővári, Zs. (2007): Inactivity and Agricultural Employment in Rural Hungary, *Competitiveness and European Integration*, 26-27 October, Cluj-Napoca, Romania
- f) Fenyővári Zs. – Nagy B. (2008): A tulajdonjogok szerepe a szellemi erőforrások piacán. In: *A gazdasági környezet és a vállalati stratégiák, a IX. ipar- és vállalatgazdasági konferencia előadásai*. Szeged, 260-268. o.
- g) Fenyővári, Zs. (2009): Economic theories, institutions, regional competitiveness, 10<sup>th</sup> International Symposium “Interdisciplinary Regional Research” *Annals of Faculty Engineering Hunedoara – Journal of Engineering*, April 23-24, Hunedoara, Romania

### 4. Other scientific notes

Fenyővári, Zs. (2003): *The inflation and the Possibilities of Monetary Policy in Hungary at the Beginning of The 2000's*, Anali Ekonomskog fakulteta u Subotici, Subotica, Univerzitet u Novom Sadu, Ekonomski fakultet Subotica

December 2013, Szeged