DOING BUSINESS IN POLAND AND THE REGION

BUSINESS CONDITIONS IN POLAND
DOING BUSINESS IN POLAND: AGORA AS A CASE STUDY

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The Birth of Transition

Exactly fifteen years ago, a group of people from the democratic opposition, heretofore un-gainfully employed in the underground press or in jail, published the first issue of Gazeta Wyborcza. The issue had eight pages. The print run was 150,000 copies, which was all we could manage with the newsprint allocation we got from the state. Clearly, that was not enough. On that day and following days, our newspaper sold on the black market for ten times the cover price.

There was a good reason why people were buying copies on the black market: Gazeta was the first legal independent newspaper in the region in a very long time. Plus, we were the only ones to run profiles of Solidarity candidates for the upcoming elections for Parliament. Solidarity won all the seats it was allowed to have in the so-called “Contract Parliament” pursuant to the Round Table Agreement between the government and the opposition. A year and a half later, both the Prime Minister and the President of the Republic were from Solidarity and Gazeta was the number one newspaper in Poland. At about that time Francis Fukuyama announced “the end of history.” For us, it was just the beginning.

This is where Poland was on the eve of transformation: The principles of “real socialism” brought the country to a brink of the economic disaster. The state sector dominated the anachronistic economy, which consisted primarily of heavy industry and agriculture. Poland had a staggering foreign debt, hyperinflation in the last five months of 1989 of 1000%, and a very low standard of living—GDP was a quarter of today’s.

But we also had the experience of democratic opposition and a vast underground press. The seeds of civil society were planted. The workers employed in those heavy state industries created the greatest movement of the 20th century, Solidarity, which sprang Poland, and the region, from the trap of socialism. Thus, we were in trouble and we had great aspirations: We were hungry for something much better.

Today, fifteen years later, Poland is a stable democracy with a healthy economy, a member of NATO and of EU. And a Trilateral Commission meeting takes place in Warsaw! Agora, which started in spartan conditions (our first headquarters was in a former nursery school), with no seed capital, is a public company listed in Warsaw and London with a market capitalisation of PLN 2.6 billion. Gazeta is still our flagship, our beloved firstborn child, but we also publish 15 color magazines and operate 28 local radio stations and the leading outdoor advertising company. We never dreamt of this in May of 1989.

The history of our company is a mirror that reflects the successes and the less inspiring underbelly of Polish transformation. Let’s start with what worked.
Free Economy Blossoms, Businesses Unleashed

The transition to a market economy was fast and effective. In January 1990, the Mazowiecki government put in place the Balcerowicz plan of economic reform. I think this is the right moment to pay homage to the people that made that plan possible: the Solidarity labor unions, who accepted the shock therapy even though the road was uncertain and very painful. They gave Poland a future, but many were excluded from the benefits of transition, thus forfeiting their own. I think a seed of today’s problems was sown then.

In any event, Poles took to free enterprise like fish to water. Although liquidity was poor and interest rates were staggering, thousands of new companies sprang into existence. They created millions of jobs, replacing those lost in the public sector. Polish consumers raced to catch up after decades of deprivation, and the economy took off.

The growth of the economy fuelled the expansion of the very young advertising market, thus creating room for the development of the independent media sector. During that period we at Agora built one of the most important European newspapers and a remarkably profitable company. All profits were plowed back to build the printing and the technology base necessary to deliver a quality, modern newspaper to our readers and our clients.

Poland Has an Effective Private Sector

Poland has been built an effective private sector and is building a corporate culture. Reforms stayed the course despite political shifts and heavy social costs, borders were opened to trade in the pre-accession phase, FDI flowed in and Polish capital markets grew, providing liquidity to free enterprise and companies like ours.

In the late 1990s, Agora was ready to start gingerly expanding into other media segments. In 1999, we went public to generate funds necessary to complete a state-of-the-art printing base and to fund growth. We took being a public company very seriously and strove to adhere to best practices, going far beyond Polish legal requirements. For example, we supported the Warsaw Stock Exchange when it drafted a corporate governance code. Today, the code has been adopted by many listed companies, including Agora. Our dedication to corporate governance is paying off: we have a very broad base of international investors, whose trust we have earned, and we also win all kinds of prizes for corporate governance.

Hunger for Success

One of the greatest pleasures for me working in Poland is the people, smart, ambitious, educated and increasingly productive. During the economic slowdown which started at the end of 2000, Polish companies underwent restructuring and became much more competitive. They took note of the Russian crisis of 1998 and redirected trade to the West. Today, Polish exporters are driving the economic recovery. Fakro, a manufacturer from the foot of the Carpathian mountains, has an over 10% share of the world’s roof windows market and exports as far as the United States. Another company, Young Digital Poland, is the European leader in multimedia language instruction. Reserved, another Polish company, is building a pan-European retail chain of clothing stores aimed at the young market. Yet another, Styl, a company built by two young entrepreneurs, is the leading European manufacturer of office furniture.

When we started Agora, our goal was to attract the best and the brightest young people untainted by bad habits. When we went public, we made a point of sharing ownership with them through a series of programs from stock incentive plans to stock purchase plans for non-executive employees. Today nearly all of our employees are Agora shareholders. A few months ago, Fortune magazine named Agora one of the top ten European companies to work for.
I turn now to the less inspiring aspects of Polish business life and transition, again using my company as an example.

**The Underbelly of Transition: State-Sponsored Corruption**

One of the problems, to put it mildly, is the inefficient state institutions, riddled with cronyism and vested interests. In the fall 2001 parliamentary elections, Polish voters, disgusted with the ineffectiveness of the AWS center right government, handed a spectacular victory to the ex-communist SLD. Post-communism came back to power dizzy with success. Meanwhile, unaware of what’s in store, we in Agora made public our plans to expand into four other media segments. We achieved half of our objectives, and the unsuccessful half is the interesting piece here.

Two acquisitions were blocked by the government. For example, to prevent our entry into television, the government redrafted the media law. The redraft was dubbed “Agora Lex” by Polish media because its most obvious objective was to stop the growth of our company. This is a matter of public record—transcripts of a cabinet meeting. Rather than taking pride in our success, never mind smoothing our path, the government chose to harm a listed company.

The redraft had a second and an even more insidious objective: to weaken private media companies and to create a post-communist monopoly in media. To explain, under the current law the three channels of state-owned TV have already gained a stranglehold on the advertising market. Under the proposed law, public TV, which is firmly controlled by SLD, would hugely expand its commercial activities and divert further revenues from private media, undercutting their financial base and weakening their voice. Of course, without financial strength, we might turn into rather toothless, docile watchdogs of Polish democracy—the very idea, it seems, the government was after.

Then there is corruption. The redraft led to a corruption scandal after *Gazeta Wyborcza* made public an attempt by an alleged representative of the ruling coalition to extort from Agora editorial concessions in *Gazeta Wyborcza* and a huge bribe in exchange for a less adverse media law.

A special committee of the Parliament conducted televised hearings for 12 months. Evidence disclosed in the hearings, the first ever in Poland, convinced the public of a widespread political conspiracy. Yet, the hearings and a trial both ended with a whimper. The court sentenced the messenger, but both bodies so far failed to name and shame politicians who animated the extortion attempt.

Following the “Rywingate,” as this case is now known in Poland, the media, sensitized to issues of transparency, published a veritable avalanche of corruption cases or alleged corruption cases associated with the SLD. The party’s approval ratings plummeted, destabilizing the political scene on the eve of EU accession, and Prime Minister Leszek Miller resigned on May 2.

**Youthful Economic Spunk vs. the Rise of Populist Demagoguery**

So what’s ahead? In the short run, I believe we have good news and bad news. The good news is the vigorous Polish economy. After a slowdown, GDP growth picked up in the second half of last year. The first quarter of this year is ahead of expectations and might reach 6%, the political mess notwithstanding. The expanding economy is a hope for job creation, which would reduce social frustration. It, of course, also signals fair winds ahead for media companies, Agora included. The advertising market is recovering and its growth should accelerate as the domestic leg of the economy strengthens. Eventually, EU membership will provide an additional economic stimulus, and we all heard not too long ago the Prime Minister promising not to raise corporate income tax.
All in all, I’m betting on pretty good times ahead for Polish businesses, provided of course the politicians don’t mess us up.

That brings me to the bad news.

Poland seems to have caught the regional, or I should maybe say, the European bug of populism. The growing public disenchantment with politicians, the declining trust in state institutions and huge unemployment opened doors to populist demagoguery. The level of support for Mr. Lepper, the head of the Samoobrona (Self-Defence) party, shows that a deep chasm has opened between the governing and the governed. As mainstream political parties, first the AWS and then the SLD, self-destruct by publicly parading their contempt for the people they are supposed to serve, they create a vacuum on the political scene. Today we are all keeping our fingers crossed for Mr. Belka, but nevertheless early elections are possible and there is a risk that the vacuum might be filled by exotic political propositions. Of course, this is a risk, not a certainty. In the past, Poles have made angry noises at politicians in the opinion polls, but when it came to elections Polish common sense prevailed and unsavoury political options were rejected.

Let’s also keep in mind that the political shocks of the last couple of years have produced some good results. After all, free media stood up to the government and survived the nastiness. Corrupt politicians are being forced out and we have a diagnosis of what ails us here. That’s a good start. Now I hope that in the free market of ideas Poland will find good ways to rebuild people’s trust in state institutions.

In the longer run, I am an avowed optimist. A few days ago I met with students from a small college in southern Poland and for a few hours we talked about business and current events. I should perhaps add that in one of my previous lives I taught at a university in the United States, so I have experience with students. The students I met in Nowy Sacz are as smart, brave, outspoken and as talented as any of their peers in the West. But because they have so much more to gain, they are also much more ambitious and they work much harder. This new generation, educated after the transformation, is already showing their spunk and vigor in business. Politics can’t be far behind. In their well considered self-interest, they will demand exacting standards of public life. We in the free media will be right behind them.

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