

The Financialisation in the Activity of Listed Companies in Poland and Croatia

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Abstract

This paper analyzes the phenomenon of financialization from the company's perspective and looks at its consequences presented in financial statements

The aim of the paper is to analyze the effects of financialization on the activity of listed companies in Croatia and Poland.

Theoretical deliberations based on a review of literature and current legislation inspired the authors to analyze financial statements of listed companies in Croatia and Poland. The aim of the empirical study is to identify the effect of financialization on business activity of Croatian and Polish companies.

Keywords: financialisation; financial assets; stock and shares; long-term financial assets; short-term financial assets

1. Introduction

Now doing business is much more complicated than previously. More and more often the financial condition of a company depends on the situation on financial markets, rather than on its operating results. Financial markets are gaining more and more importance and become detached from the foundations of real economy. As regards business activity, the financial area is growing at the expense of the manufacturing area. The above phenomenon, referred to as “financialization”.

The hypothesis adopted in this paper is the role of financial activity in overall activity of non-financial entities is growing.

The aim of the paper is to analyze the effects of financialization on the activity of listed companies in Croatia and Poland.

The authors set out to investigate how financialization affects financial activity items presented in balance sheets of the companies in question.

2. Theoretical background

The phenomenon of financialization is a relatively new concept in Poland (Ratajezak 2012, p. 281) and Croatia but we can notice that it has become fairly common in international

literature. However, it is difficult to find a clear, generally accepted by researchers definition of financialization. The missing definition is the ultimate proof that the phenomenon is still being analyzed, named and defined by researchers (Kamela-Sowińska 2014, p. 110).

Financialization is a process of increasing the effect of the financial area on economic policies and its influence on economic results. Thus, financialization needs to be analyzed in its both broader and narrower meaning, i.e. from the macro and microeconomic perspective.

From macroeconomic perspective, financialization is referred to as growing role of financial markets, entities and institutions in the functioning of both national and global economy (Epstein 2005, p.3). According to G. Krippner (2005, p. 354) financialization is a form of accumulation whereby profits are generated through financial channels rather than through manufacturing and trade.

In Polish literature, the financialization is defined as increasing role of financial markets, institutions or motivations in national and international economy (Trembińska 2009, p. 354) or disproportionate growth of the financial area (Żyżyński 2010, p. 27).

From microeconomic perspective, the financialization means greater share and importance of financial activity in the overall business of non-financial entities. In the opinion of M. Ratajczak, financialization - in a narrower meaning - is associated with the growing importance of financial activities undertaken by non-financial entities (Ratajczak 2012, p. 282). It is reflected by a growing (or sometimes even dominating) position of financial assets in total assets and financial revenues and costs in the total value of the corresponding profit and loss categories.

As a discipline reflecting the economic reality of entities, accountancy operates in a microeconomic scale. With regard to the phenomenon of financialization, accountancy – by means of particular principles and methods – measures, values and records the “benefits” related to financialization, i.e. financial assets and the related profit and loss categories in the form of financial revenues and costs.

Financial statements provided by the accounting system present information on an entity's assets, finances, equity and financial results. They constitute a basis for evaluating performance and determine economic decisions taken by financial statements users. Therefore, such statements should present the financial condition of an entity in a fair and clear manner. Simultaneously, they should constitute a collection of useful data satisfying their users' need for information.

Irrespective of the aims and addressees of financial statements and legislative systems adopted in a given country and its political and economic relations, data contained in financial statements should always be prepared in keeping with the concept of a true and fair view. The said concept requires that the economic reality of an entity is presented faithfully and without any material misstatements. Adherence to the true and fair view concept ensures an adequate quality of information generated by accounting. The pursuance of this concept governs other accounting principles, such as the materiality principle which applies to information aspects of accounting and concerns the manner of presenting information contained in financial statements. The use of the materiality principle manifests itself in that financial data is grouped and classified so as to highlight all important (material) information, necessary both for decision-making and for evaluating the condition of the entity's assets and finances. Information is considered material if its omission or distortion can affect economic decisions taken by financial statements users (Remlein 2008, p. 67).

The goal of general-use financial statements is to provide information on the financial condition, achievements and cash flows of an entity. Particularly in the recent years, due to rapid changes in the business environment, the pursuance of this goal has required many structural changes aimed at increasing the usefulness of financial information. A study held by

the FASB working group among financial statements users showed considerable correlation between the place of presenting a given piece of information in financial statements and its usefulness in the decision-making process (Walińska, Bek-Gaik 2011, p. 327).

In balance sheets prepared in accordance with Polish accounting regulations, financial assets are presented either among fixed assets (as financial fixed assets) or among current assets (as current financial assets), depending on the date of their expected disposal or maturity calculated as from the balance sheet date. Financial assets (both short and long term), broken down into those in affiliated entities and those in other entities, are divided in the balance sheet into four categories:

- Stock and shares,
- Other securities,
- Loans awarded,
- Other financial assets.

The first and the third category seem fairly clear as regards their thematic scope. However, “Other securities” include debt securities purchased for resale, representing notional-amount receivables maturing at a predefined date (e.g. bonds, bank and treasury bills, covered bonds), or securities contingent on accidental causes (e.g. insurance policies). In its turn, “Other financial assets” include in particular time deposits.

In Croatia, the financial statement prepares in accordance with Croatian accounting regulations. The structure of all financial statement is prescribed by Ordinance on the structure and content of the financial statements (2016). In the balance sheet, financial assets are present like non-current and current financial assets. Within each of that two groups, financial assets are divided within three basis groups, one is financial assets in a Group, second is financial assets in associated undertakings and third group is financial assets in unaffiliated companies. Each of that three group is divided on Stock and shares, Other securities and Loans. Other financial assets are fourth common group. The financial assets in Croatia are similar like in Poland.

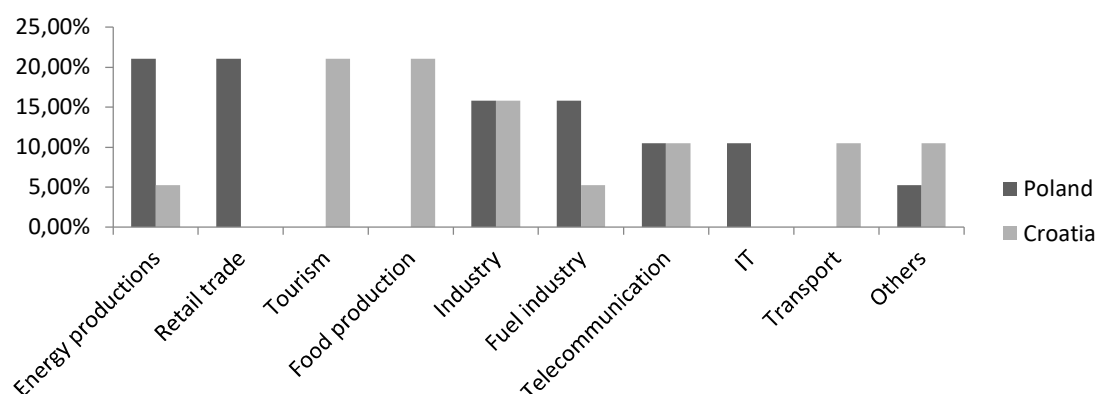
3. Data and methodology

The research group consists of selected, largest companies listed on the Warsaw and Zagreb Stock Exchange. It was chosen deliberately, based on the type and importance of the company. These companies play a huge role in the national economy, manage assets of considerable value and do not operate in the financial sector.

The data of the following companies were used for empirical research:

- 19 companies from WIG 30 of the Warsaw Stock Exchange (WIG 30 index contains shares in 30 major and most liquid companies in the WSE Main List),
- 19 companies from Zagreb Stock Exchange

The basic characteristics of companies researched are shown in Figure 1 according to their operating activities.

Figure. 1: Operating activities of Companies in Poland and Croatia

Source: by the authors on the basis of websites of the analyzed companies.

The aim of the empirical study is to identify the effect of financialization on business activity of Polish and Croatian companies and find whether there are differences between Croatia and Poland.

The empirical study involved the method of analyzing financial data contained in balance sheets of the companies. The timeframe of the study includes 2005 (before the global financial crisis), 2010 (during the crisis) and 2017 (the most recent financial statements).

4. Results and Discussion

The first research question is do current balance sheets of Polish and Croatian companies show greater value of financial assets than earlier balance sheets?

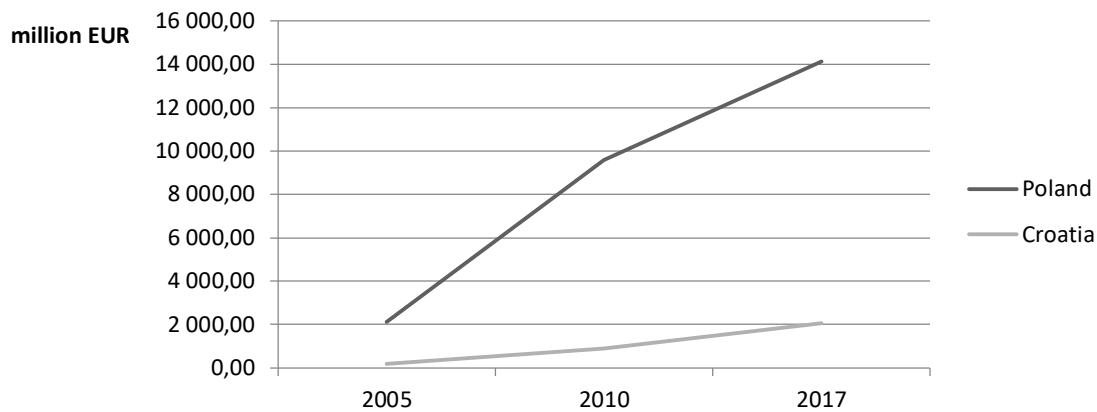
The analysis of company balance sheets showed that both Polish and Croatian companies increased the value of financial assets in the audited period. In 2005, the financial assets of the surveyed companies in Poland and Croatia amounted to approximately EUR 2,000 million. In 2010, during the crisis, the value of financial assets of the surveyed Polish companies amounted to almost EUR 10,000 million. In 2017, definitely higher value of financial assets is shown in the balance sheet of Croatian companies (over 20,000 million euros). The value and dynamics of financial assets of the surveyed companies are presented in Table 1 and Figure 2.

Table 1: Value and dynamics of financial assets in the surveyed Polish and Croatian companies

Country	Value in EUR million			Dynamics (2005=100%)	
	2005	2010	2017	2010	2017
Poland	2 119,96	9 591,10	14 131,34	452%	667%
Croatia	193,48	892,53	2052,53	461%	1061%

Source: by the authors on the basis of financial statements of the analyzed companies.

Figure 2: Value and dynamics of Polish and Croatian financial assets in 2005, 2010, 2017



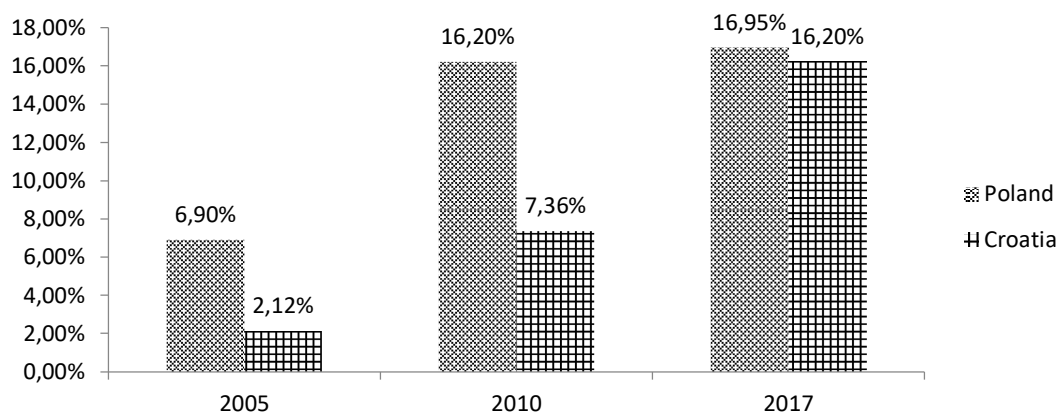
Source: by the authors on the basis of financial statements of the analyzed companies.

The following conclusions can be drawn from the analysis of the surveyed balance sheets:

- data on financial assets in earlier balance sheets is far less abundant than today, which may imply greater interest in financial assets and existence of more diversified portfolios of such assets,
- the value of financial assets grew in each of the analyzed companies,
- increase in the value of financial assets in Poland in 2010 as compared to 2005 amounted to 452% and in 2017 to 461%,
- in Croatia, the increase in the value of financial assets in 2010 compared to 2005 was 667% and in 2017 as high as 1061%,
- the rate of increase in the value of financial assets in the analyzed Croatian companies is greater than in the case of Polish companies.

The second research question is do current balance sheets of Polish and Croatian companies show greater shares of financial assets than earlier balance sheets?

For a more in-depth analysis, the authors investigated changes in the share of financial assets in the total value of assets, as well as the structure of financial assets, using their realization period as the classification criterion. Figure 3 presents the share of financial assets in total assets.

Figure 3: Share of financial assets in total assets in Polish and Croatian companies

Source: by the authors on the basis of financial statements of the analyzed companies.

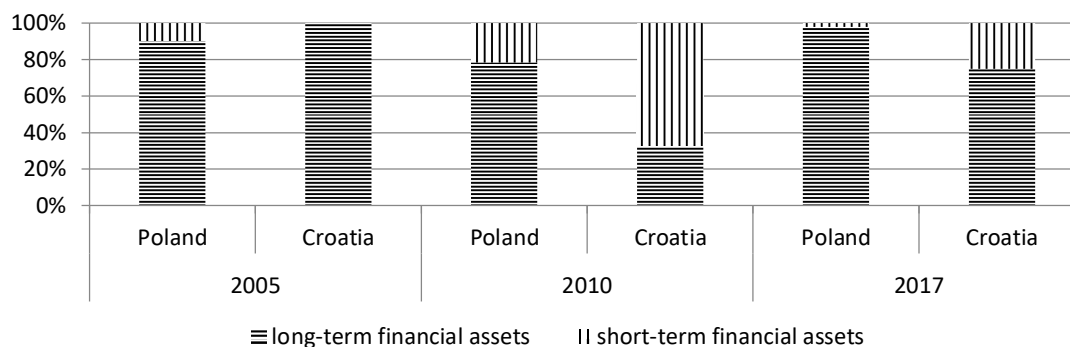
In both Polish and Croatian companies, the share of financial assets in total assets increased in the period under consideration and in 2017 remains at a similar level of 16%. In Poland in 2005, the share of financial assets in total assets was 6.9%, while in Croatia only 2.12%. We can notice clear increase in the share of financial assets in total assets in Poland in 2010 (increase by 10%), while in Croatia in 2010 there was an increase of 5.2% and a further increase of 8.88% in 2017 as compared to 2010.

The table below presents the share of long-term and short-term financial assets in total financial assets

Table 2: Share of long- and short-term financial assets in total financial assets in the surveyed Polish and Croatian companies (%)

Name of the ratio	Poland			Croatia		
	2005	2010	2017	2005	2010	2017
Share of long-term financial assets in total financial assets	90,13	78,65	97,93	100,00	32,81	74,97
Share of short-term financial assets in total financial assets	9,87	21,35	2,07	0,00	67,19	25,03

Source: by the authors on the basis of financial statements of the analyzed companies.

Figure 4: Share of long- and short-term financial assets in total financial assets in the surveyed Polish and Croatian companies

Source: by the authors on the basis of financial statements of the analyzed companies.

In the analyzed years (exception 2010 Croatia), the share of long-term financial assets dominates which may indicate that the companies perceive financial assets as a source of economic benefits in longer rather than shorter perspectives. In 2010, during the financial crisis a clear increase in short-term financial assets is visible both in Poland and in Croatia. But in 2017, we can again see that most financial assets are long-term financial assets (in Poland 97,93%, in Croatia 74,97%).

In Poland, the largest value of long-term financial assets is held by PGE Polska Grupa Energetyczna.

The long-term financial assets of this company amount to 56.94% of long-term financial assets of all surveyed Polish companies. In Croatia, the company that holds the most long-term financial assets is the Adris Group. Its long-term financial assets amount to 67.84% of long-term financial assets of all surveyed Croatian companies.

The third research question is what are the dominating financial assets?

The results of the previous analysis indicate that financial assets are dominated by long-term financial assets. So what positions of long-term financial assets have the highest value?

Both in Poland and in Croatia, long-term financial assets are divided into four groups:

- Stock and shares,
- Other securities,
- Loans awarded,
- Other financial assets.

Table 3 presents the share of individual groups in long-term total financial assets.

Table 3: Structure of long-term financial assets (%)

Groups of long-term financial assets	Poland			Croatia*	
	2005	2010	2017	2010	2017
Stock and shares	34,71	92,01	75,04	50,03	11,12
Other securities	0,00	0,00	0,00	0,00	0,00
Loans awarded	0,32	0,24	20,94	12,14	16,87

Other financial assets	64,97	7,75	4,02	37,83	72,01
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* no data on the dividing of long-term financial assets

Source: by the authors on the basis of financial statements of the analyzed companies.

The share of individual groups of long-term financial assets has changed over the years. However, it should be noted that neither companies in Poland nor in Croatia have "Others securities". Currently (in 2017), the group "Stock and shares" (75.04%) has the largest share in Polish companies, while in Croatia "Other financial assets" (72.01%). Figure 4 presents the structure of long-term financial assets in 2017.

Figure 5: The structure of long-term financial assets in 2017 in the surveyed Polish and Croatian companies



Source: by the authors on the basis of financial statements of the analyzed companies.

5. Conclusions

The following conclusions can be drawn from the analysis of the balances of the surveyed Polish and Croatian companies:

- data on financial assets in earlier balance sheets is far less abundant than today, which may imply greater interest in financial assets and existence of more diversified portfolios of such assets,
- the value of financial assets grew both in Polish and Croatian companies;
- financial assets' share in total assets is growing,
- long-term financial assets dominate in nearly all companies, which may indicate that the companies perceive financial assets as a source of economic benefits in longer rather than shorter perspectives,
- the most popular long-term financial assets are: in Poland "Stock and shares" and in Croatia "Other financial assets".

The above analysis allow one to claim that we can notice some consequences of financialization in business activity of Polish and Croatian enterprises. The growing importance of financial activity in overall business activity of companies are particular symptoms of financialization. The empirical study discussed in this paper confirmed the thesis on the

growing role of the financial area in business activity of Polish and Croatia companies. The growing value and diversified structure of financial assets are tangible effects of the financialization process.

The authors are aware that limiting the scope of the paper to financial assets only is a profound simplification. However, due to space constraints it was impossible to extend the study area. Therefore, the deliberations presented here can serve as a basis for further research.

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