

## The review of the financial strategies of Polish wood-industry companies listed on the Warsaw Stock Exchange

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**Abstract:** *The review of the financial strategies of Polish wood-industry companies listed on the Warsaw Stock Exchange.* The paper focuses on the analysis of the financing strategies of wood industry enterprises listed on Warsaw Stock Exchange in 2018 - 2020. This paper examines three main values characterising company's financing strategy: equity capital share in total capital, equity capital share in fixed assets and long-term debt share in total debt. The data for calculations was taken from publicly available quarterly financial statements of analysed entities from 1<sup>st</sup> quarter of 2018 to 3<sup>rd</sup> quarter of 2020. The analysis showed that moderate financing strategy was used by Biofactory and KLON companies and an aggressive strategy was used by Standrew. KPPD financing strategy was not possible to clearly define due to the high volatility of values of examined ratios and depend on the considered period. The highest variability in the structure of foreign capital was observed in KLON - in this company the highest level of long-term debt was observed (above 70% of total debt).

*Keywords:* wood industry, financial strategy, Warsaw Stock Exchange

### INTRODUCTION

It is well known fact that the wood-industry sector is an important part of the European Union economy (Smardzewski, 2009). The European Community countries occupy a high position in the ranking of world producers and exporters of wood and wood products. Analysing mentioned before ranking among European Union countries, it is possible to indicate several countries that are at the forefront of this classification and Poland should be mentioned as one of them (Ochman-Nowicka, Lis, 2004, Grzegorzewska, Stasiak-Betlejewska 2020, Ratajczak, 2003). Despite the fact that Polish exporters (also exporters of wood and wood products) achieve lower prices of the offered products, the high position of Poland in the ranking of exporters is primarily influenced by the price competition strategy used by them (Polski Instytut Ekonomiczny Report, 2019).

Polish wood-industry sector plays an important role in the development of the entire Polish economy although it is considerably fragmented and focuses on small and medium-sized enterprises (there are only a few large wood-industry entities in Poland); a large number of small entities are not covered by official statistics (it is estimated that even 30% of the entire sector) (Popyk at al., 2014, Czemko at al., 2017). Despite the large share of small enterprises, the share of manufacture of wood and wood products in the entire Polish industry in 2018 increased by 9.35% compared to the previous year, the manufacture of paper and paper products result was 10.39%, and the manufacture of furniture as much as 20.2% (GUS, 2019). Analyzing the dynamics of Polish exports in 2018, it can be noticed that the export of wood products increased in 2018 compared to 2015 by almost 28%, the export of paper in the discussed period increased by 17%, and the export of furniture increased by almost 23%.

Recently, enterprises of virtually all industries over the world are struggling with problems related to the slowdown in demand on global markets, related to the coronavirus epidemic. Undoubtedly, the crisis caused by the coronavirus epidemic has slowed Poland's economic growth, as it did in other European Union countries. Despite difficulties observed in the last year, Poland has experienced strong economic growth over the past years. Until the

outbreak of the coronavirus, rising household incomes had contributed to more inclusive economic development, rising real GDP and declining unemployment rate were observed (OECD, 2020). Therefore, it seemed interesting to verify how Polish wood-industry enterprises are dealing with growing difficulties, especially those of them, that decided to acquire capital needed for business expansion on the Warsaw Stock Exchange.

**MATERIALS AND METHODS**

The aim of the research was to define the financial strategy of the wood industry companies listed on the Warsaw Stock Exchange in the face of selling difficulties on the world markets as a consequence of the coronavirus pandemic. It seems, that in the face of increasing difficulties with the sale of products, causing an increase in receivables, enterprises will apply an appropriate policy of financing the entity's activity, which in turn will be reflected in the capital structure of the enterprise and in the amount and structure of its liabilities. For this reason, four representatives of wood industry enterprises listed on the Warsaw Stock Exchange were selected to analyze the data contained in their quarterly financial statements from years 2018-2020. Table 1 shows names and business profiles of chosen companies.

Table 1. Business profiles of wood-industry companies listed on Warsaw Stock Exchange

<b>Name of company</b>	<b>Business profile</b>	<b><i>Year of debut on Warsaw Stock Exchange</i></b>
Biofactory	wood and wood products manufacturer	2009
KLON	lumber producer	2011
KPPD	lumber producer	2007
Standrew	lumber producer	2013

Source: Author’s own elaboration based on Warsaw Stock Exchange data.

The location of selected wood-industry companies on map of Poland are shown in Figure 1.



Figure 1. Location of companies of manufacture of wood and wood products on the map of Poland

Source: Author’s own elaboration

Three of selected companies, namely Biofactory, KLON and Standrew are listed on NewConnect market, an organised market operated by the Warsaw Stock Exchange outside the regulated market as an alternative trading system. This market was created for young dynamic Polish enterprises with high innovation potential, needing a capital for development. The last company, KPPD is listed on Warsaw Stock Exchange main market.

## FINANCIAL STRATEGIES CHARACTERISTICS

Enterprises have various possibilities of obtaining capital. Financial statement is the primary source of information about capital structure used by the company during its activities. Financial statement contains information not only about company's assets, but also values of the home equity and foreign capital used by company. Data of the company capital structure allow to analyze its financing strategy (Kołosowska et al., 2006).

In the literature, there are three types of business financing strategies: aggressive, moderate and conservative. Aggressive strategy is based on the assumption that fixed assets and part of the current assets are financed by short-term foreign capital. Aggressive strategy is associated with higher levels of financial risk (Michalak, 2013). A low liquidity is the characteristic feature for the aggressive strategy and may cause threat to the solvency of the company. It is risky strategy but, on the other hand, gives the chance of higher profits (Bień, 2005).

The opposite of the aggressive strategy is the conservative strategy. It assumes that the equity and foreign long-term capital covers not only assets, but also part of the current assets. In the case of the conservative strategy the share of short-term financing is low, which reduces financial risk (Grzegorzewska, Stasiak-Betlejewska, 2015).

The conservative strategy is a secure strategy, strengthens financial stability of company, but results in high engagement of equity capital and foreign long-term capital leads to an increase in financial costs (Tokarski, 2006).

The third way of financing strategy is moderate strategy. This strategy assumes that the fixed assets are financed by equity capital and long-term debt, and the current assets from short-term debt. A moderate financial risk, moderate equity profitability and absorbing average financial costs are main features of moderate strategy.

The characteristics indicators of moderate, aggressive and conservative strategies are presented in Table 2.

Table 2. Characteristics indicators of companies financing strategies

<b>Financing strategy</b>	<b>Moderate</b>	<b>Aggressive</b>	<b>Conservative</b>
Equity capital share in total capital	medium	low	high
Foreign capital share in total capital	medium	high	low
Equity capital share in fixed assets	around 1	below 1	above 1

Source: Author's own study.

The basic indicators characterizing the financing structure are:

1. equity capital share in total capital or,
2. foreign capital share in total capital,

which are calculated as follows:

1. Equity capital share in total capital = equity capital/total capital [%]
2. Foreign capital share in total capital = foreign capital/total capital[%].

Equity capital and foreign capital create a total company capital.

Another indicator which allows to determine the financing strategy of the company is equity capital share in fixed assets.

The supplement of information from the mentioned above indicators is the analysis of the structure of companies debt. It will be calculated using the following formulas:

1. Long-term liabilities share in total liabilities or,
2. Short-term liabilities share in total liabilities,

which are calculated as follows:

1. Long-term liabilities share in total liabilities = long-term liabilities/total liabilities,
2. Short-term liabilities share in total liabilities = short-term liabilities/total liabilities.

## RESULTS

Figure 2 shows values of first indicator characterising the financing structure of wood-industry companies listed on Warsaw Stock Exchange.

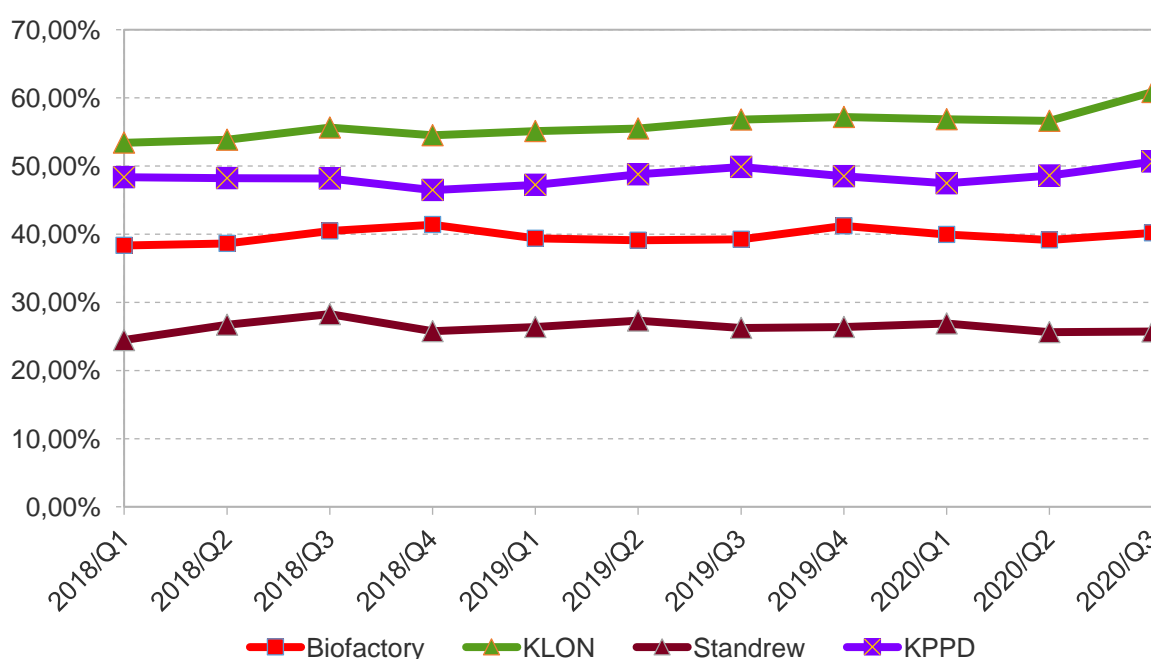


Figure 2. Equity capital share in total capital in subsequent quarters of 2018-2020 for wood-industry companies listed on Warsaw Stock Exchange

The analysis of the results of the first applied indicators, graphically presented in Figure 1, allows to conclude that all analyzed enterprises are characterized by a slight variability of this indicator throughout all mentioned period. The lowest recorded values of the share of equity capital in the examined entities amounted approximately 24.5% of value of total capital, while the highest values amounted to 60.8% of value of total capital. The lowest values of the discussed measure were observed in the case of Standrew - the share of equity capital in this company in the total capital ranged from around 24.5-28.3%. On the other hand, KLON had the highest share of equity in financing its activity - in this case the share of equity in the total capital ranged from 53.4% to 60.8%. In the case of this enterprise, it can be noted that the increase in the share of equity capital in total capital is more noticeable than in other enterprises, especially in the last analyzed quarter.

Values of equity capital share in fixed assets in 2018-2020 for analysed companies are shown in Figure 3.

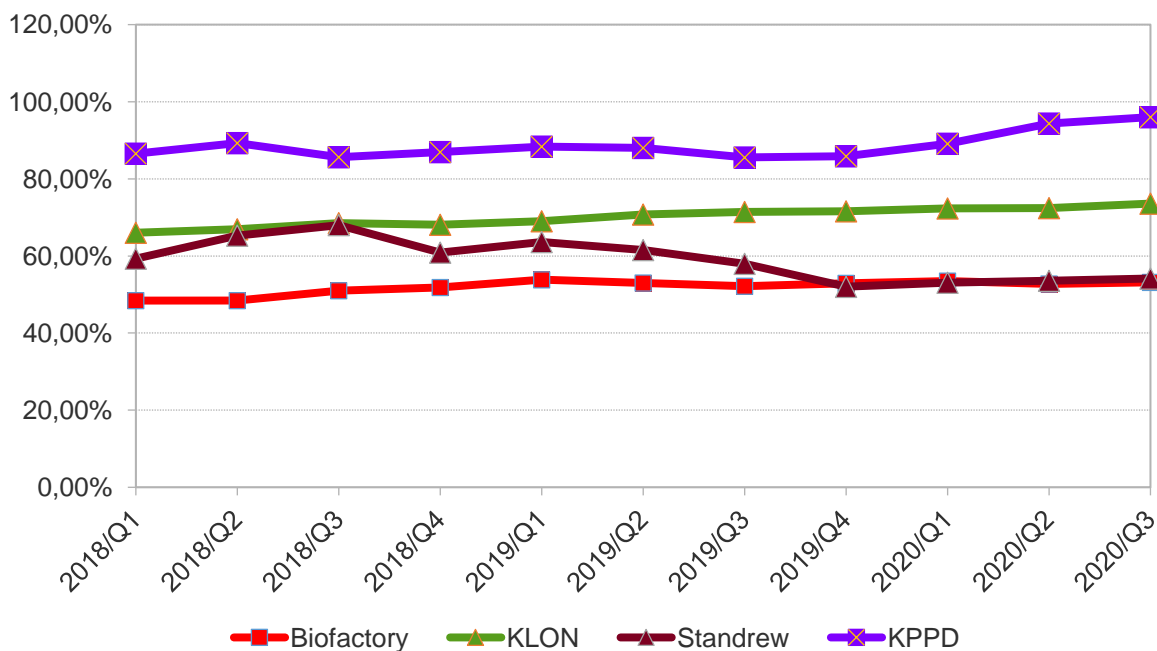


Figure 3. Equity capital share in fixed assets in subsequent quarters of 2018-2020 for wood-industry companies listed on Warsaw Stock Exchange

The analysis of the data illustrated in Figure 3 shows that the lowest share of equity capital in the fixed assets reach 48.4%, while the highest was 96.0%. The lowest values of the indicator were observed for Biofactory, in the entire analysed period the values reach exactly level of 48.4-53.9%. Similar low level of values of the indicator was noticeable for Standrew - in the last 4 analyzed quarters the indicator dropped in that company to the level recorded in the Biofactory. The opposite situation was observed in the case of KPPD - the values of the measure for this enterprise in the entire analyzed period were at the level of 85.6-96%. In the last three analyzed quarters, the value of the share of equity in the fixed assets of the KPPD company grew noticeably.

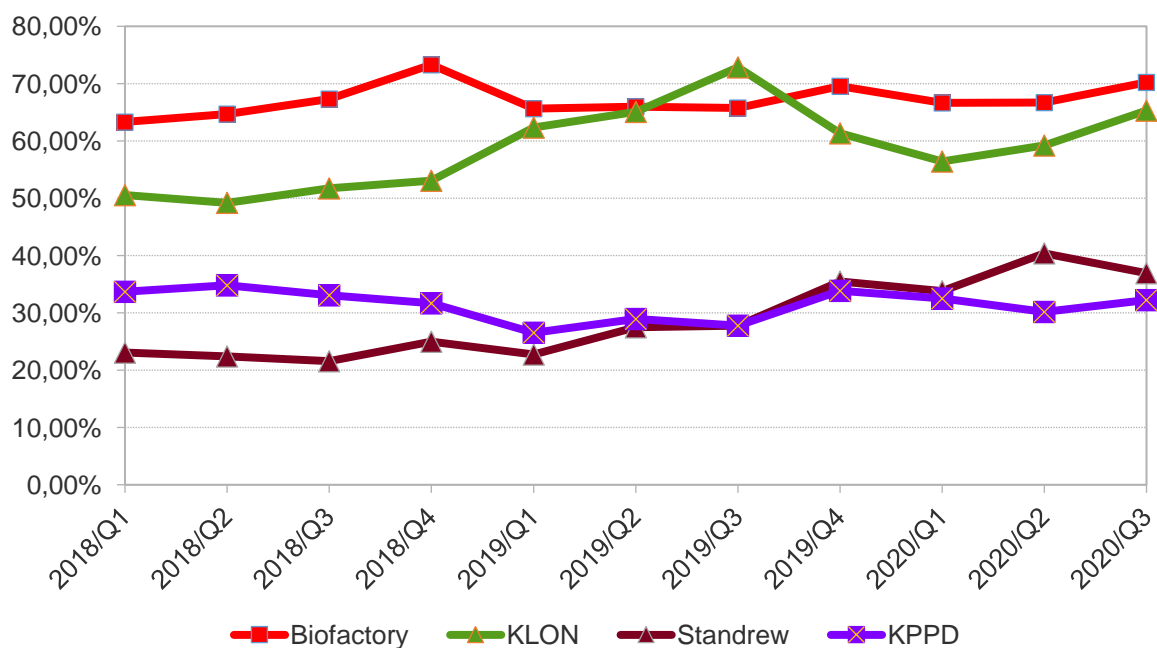


Figure 4. Long-term liabilities share in total liabilities in subsequent quarters of 2018-2020 for wood-industry companies listed on Warsaw Stock Exchange

Figure 4 shows a graphic illustration of changes in the share of long-term liabilities of the analyzed enterprises in relation to their total liabilities

The share of long-term debt in the total debt of the surveyed entities in 2018-2020 ranged from 20-80%. The analysis of Figure 4 shows a large range of the indicator values in the discussed enterprises. A low level of long-term liabilities were observed especially in the first quarters of the analyzed period - Standrew recorded approximately 21.6% share of long-term debt in total debt in 3<sup>rd</sup> quarter 2018. It was also the lowest level of long-term debt among the mentioned enterprises. Starting from 2019, a gradual increase in the share of long-term debt of the enterprise was observed - in the last analyzed quarter, i.e. in the 3<sup>rd</sup> quarter of 2020, this measure reached almost 37%. The values of analysed indicator similar to those recorded by Standrew were observed at KPPD, although in a narrower range - at the beginning of the analysed period values of this indicator exceeded the level of 30% in the KPPD, in the subsequent quarters slightly decreased to reach the value of 30-33% at the end of 2020.

Compared to Standrew and KPPD, Biofactory and KLON noted a higher share of long-term debt in their financing sources. In both enterprises at the beginning and at the end of the analyzed period an increase in the share of long-term debt can be observed. The share of long-term debt in KLON at the beginning of the analyzed period is lower than in Biofactory and amounts to approx. 50%. In the following quarters, this share shows an upward trend (up to even 73% in the 3<sup>rd</sup> quarter 2019). Over the following quarters until the beginning of 2020, the ratio of the share of long-term debt in the total debt of enterprise decreases (to exactly 56.4% in the 1<sup>st</sup> quarter of 2020); in the last two quarters the measure increases again (to 65.3% in the last examined quarter). Biofactory shows a similar course of changes in the indicator values, especially in the first 4 quarters of the analyzed period – the share of long-term debt of the entity increases (the highest value was recorded in the 4<sup>th</sup> quarter 2018 and was over 73%). As in the case of KLON, the values of the measure for Biofactory in the last analyzed period show an upward trend.

In order to classify a company as one using conservative financial strategy it's needed to check all three indicators. Indicator of share equity capital to total capital and share equity capital to fixed assets are the main indicators. The indicators should take values close to 100%. A high share of long-term liabilities in the entity's total debt, especially in long-term range, may also indicate a conservative financial strategy of enterprise.

## CONCLUSIONS

The research allows the following conclusions to be drawn:

1. The values of ratio of equity capital in the entity's total equity, as well as the ratio of equity capital in fixed assets and the ratio of long-term debt in total debt in all enterprises throughout the analyzed period showed a stable, constant level.
2. Biofactory, KLON and KPPD recorded an increase in values of share of equity capital in total capital in the 3<sup>rd</sup> quarter of 2020.
3. In the last analyzed quarter all enterprises recorded an increase in the ratio of the share of equity capital in the fixed assets, the most marked increase was observed for the KPPD.
4. Among the surveyed companies, Biofactory and KLON had a significantly higher ratio of long-term debt to total debt.
5. Three indicators values analysis allowed to conclude that a moderate financing strategy was used by KLON and Biofactory, an aggressive strategy was used by Standrew. Due to the high volatility of the values of the analyzed ratios, it was not possible to clearly define the strategy of KPPD.

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**Streszczenie:** *Przegląd strategii finansowych polskich spółek branży drzewnej notowanych na Giełdzie Papierów Wartościowych w Warszawie.* Artykuł koncentruje się na analizie strategii finansowania przedsiębiorstw przemysłu drzewnego notowanych na Giełdzie Papierów Wartościowych w Warszawie w latach 2018-2020. W artykule przeanalizowano trzy główne wartości charakteryzujące strategię finansowania spółki: udział kapitału własnego w kapitale ogółem, udział kapitału własnego w majątku trwałym jednostki oraz udział długoterminowego zadłużenia w całkowitej kwocie zobowiązań jednostki. Dane do wyliczeń zaczerpnięto ze sprawozdań finansowych analizowanych spółek z okresu od 1 kwartału 2018 roku do 3 kwartału 2020r. Analiza wykazała, że spółki Biofactory oraz KLON stosowały umiarkowaną strategię finansowania działalności, spółka Standrew – strategię agresywną. W KPPD strategia finansowania była zmienna ze względu na dużą zmienność wartości badanych mierników i zależała od badanego okresu. Największą zmienność struktury kapitału zaobserwowano w przypadku spółki KLON – w jednostce tej odnotowano najwyższy poziom zadłużenia długoterminowego w stosunku do zadłużenia ogólnego (powyżej 70% wartości kapitałów jednostki).

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