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THE ACTIVITY OF FOREIGN VERSUS LOCALLY - OWNED COMPANIES: FINANCIAL PERSPECTIVE

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Abstract

The aim of this paper is to compare the financial effects of domestic and foreign companies activities on the basis of two randomly chosen enterprises. It is argued that foreign companies are the carriers of modern technologies what have the influence on financial results obtained by them. However, their successes cannot be attributed only to better innovativeness but also to better use of borrowed capital. Higher proneness to risk resulting from financing the company activities from external sources in the long-term perspective may bring the company higher profitability and, in consequence, contribute to faster development of the enterprise.

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Introduction

The internationalization and globalization processes of the world economy are to a large extent responsible for the growth of international capital transfer in form of foreign investments. They constitute a special type of investment, made outside the home country of an investor.

The growing inflow of foreign investors accounts for the fact that these investments have a vital role in shaping the economic structure of the region and generate a number of interactions and economic relations. The scope of their influence on particular sectors of the economy of the hosting country is very wide. It is commonly assumed that foreign investment is mostly an additional source of capital provision for particular sectors of economy and decrease unemployment through increasing demand for workers on the labor market.

Special emphasis is put on the role performed by foreign companies in the transfer of technology, modern management methods and intellectual capital through, for example, sales of licenses, patents, technological solutions, providing technical support, realizing educational activity or scientific exchange.

The mechanism of popularization of modern, organizational and technical solutions also consists in an attempt of domestic companies at achieving the ability to compete or cooperate with foreign

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investors. There have been instances of forcing local suppliers to use particular technologies and solutions to obtain a product of determined quality parameters (Karaszewski, 2004, pp.74-75). Another important element is also the influence of foreign investment on the research and development sphere of the host country. It turns out that the participation of foreign enterprises in creation and development of research centers in the host country is insignificant and usually happens in countries which have already reach high level of technological development – in this case foreign enterprises open new research and development centers or use the existing ones. However, in poorly developed countries foreign investors show little involvement in the R&D sphere because it is usually centralized in parent companies (Karaszewski, 2004, pp.75-76).

Innovativeness of domestic and foreign companies

Table 1 shows and compares the volume of expenditure in investment activity of domestic and foreign companies in 2008 in the industrial processing sector. The choice of the industrial sector was caused by big interest of foreign investors in investing capital in this area of economy. It is a positive phenomenon as the inflow of additional capital to Polish industry creates an opportunity of increasing effectiveness of technologies used and innovations implemented, and consequently increases the competitiveness of the whole economy of the region.

Table 1: Expenditure on innovative activity concerning product and process innovations in industrial companies according to forms of ownership in 2008

Form of ownership[2]	Total		A		B		C		D		E		F		G	
	in million zlotys	in %	in million zlotys	in %	in million zlotys	in %	In million zlotys	in %	In million zlotys	in %	In million zlotys	in %	In million zlotys	in %	In million zlotys	in %
Private sector in total, including:	19964.9	100	1844.6	9.2	240.9	1.2	340.6	1.7	5029.3	25.2	11364,.7	56.9	228.1	1.1	612.2	3.1
- domestic ownership	7134.4	100	608.9	8.5	58.8	0.8	140.7	2.0	2010.2	28.2	3932	55.1	28.8	0.4	217.8	3.1
- foreign ownership	7864.8	100	915	11.6	165.2	2.1	141.6	1.8	1418	18.0	4747.6	60.4	58.6	0.7	332.3	4.2
- mixed ownership	4965.7	100	320.7	6.5	16.9	0.3	58.4	1.2	1601.1	32.2	2685.2	54.1	140.7	2.8	62.1	1.3

A – R&D activity – purchase of knowledge from external sources, C – purchase of software, D – investment expenditure on buildings and land, E – investment expenditure on machines and technical equipment, F – personnel training in innovative activity, G – marketing concerning new and significantly improved products.

Source: own work, on the basis of Science and technology in Poland in 2008. Obtained from http://www.stat.gov.pl/gus/5840_800_PLK_HTML.html

[2] According to Central Statistical Office (2010b, p. 147):
1) domestic ownership includes subjects with majority or total share of domestic capital,
2) foreign ownership includes subjects with majority share of foreign capital,
3) mixed ownership comprises subjects in which the sum of domestic and foreign capital share is bigger than state share (Treasury, state and communal legal persons).

The expenditure on innovative activity in private sector in 2008 amounted to 19,965 19964.9 million zlotys (about 19,965 mld. zl.). The volume of expenditure born by foreign companies on this activity is bigger than that of domestic companies and amounts to 39.4%, compared with 35.7% of the total expenditure of private sector.
The structure of expenditure on innovations is similar for domestic and foreign companies. Most of all, in both cases enterprises invest in machines and technical equipment. In case of foreign companies as much as 60.4% of expenditure is allocated for this, whereas domestic companies spend 55.1%. Domestic companies invest more in purchasing knowledge from outside sources than foreign enterprises - respectively 28.2% and 18.0%. On the other hand, foreign companies invest more into research and development activity – respectively 11.6% and 8.5%.
The above data show that foreign companies use their own research and development sphere. We could assume then that foreign enterprises have a better developed R&D base, which gives them an advantage over domestic companies, as the technologies they have at their disposal are their property (most often property of the parent company). In case of purchasing technologies from external research and development units there is always the risk that a given technology has already been used (partly or fully) by other enterprises, or that it will soon be sold to another company and in this way will cease to be unique. Of course developing a new technology (or modernizing the existing one) does not fully protect us from its popularization, imitation or implementation by other subjects, but there are more possibilities of preventing such situations.
Both domestic and foreign companies allocate the least expenditure for training staff in innovative activity of these enterprises.
Table 2 shows the structure of sold production broken into the technology used (on the basis of OECD list of branches from 1997). The way the data have been presented makes the comparison of domestic and foreign companies performance practically impossible. The data have been presented only as percentage numbers, moreover the foreign ownership was only selected from the private sector, which covers all subjects operating in the industrial processing section of this sector. We can, however, point out some tendencies.

Table 2: Sold production in industrial processing section broken into levels of technology[3] in 2001-2008 (in %)

Private sector								
	2001	2002	2003	2004	2005	2006	2007	2008
Total	100	100	100	100	100	100	100	100
High level of technology	4.9	5.6	5.3	4.7	4.6	5.0	4.8	5.3

[3]The classification of technology levels used in this paper is based on Central Statistical Office taxonomy. The level of technology is defined according to the knowledge (R&D) intensity as relation between R&D expenditure and value add. If the knowledge (R&D) intensity amounts:

1) below 1% the level of technology is defined as a low,
2) between 1% - 2,5% the level of technology is defined as a lower – medium,
3) between 2,5% - 7% the level of technology is defined as a upper – medium,
4) above 7 % the level of technology is defined as a high.

More at Central Statistical Office (2010b). Science and technology in Poland in 2008. Obtained from: http://www.stat.gov.pl/gus/5840_800_PLK_HTML.html

Upper-medium level of technology	22.8	21.2	23.4	25.8	26.0	26.8	26.8	26.1
Lower-medium level of technology	27.5	26.8	26.7	28.3	30.0	30.0	30.5	31.3
Low technology	44.8	46.4	44.5	41.2	39.4	38.2	37.9	37.3
Foreign ownership								
	2001	2002	2003	2004	2005	2006	2007	2008
Total	100	100	100	100	100	100	100	100
High level of technology	6.2	9.3	7.8	6.5	5.8	7.1	7.3	7.8
Upper-medium level of technology	36.5	35.8	38.9	42.5	43.0	42.8	42.0	39.6
Lower-medium level of technology	16.6	18.0	19.2	19.2	19.6	20.8	21.9	23.1
Low technology	40.7	36.9	34.1	31.8	31.6	29.3	28.8	29.5

Source: own estimate on the basis of Central Statistical Office (2010b). Science and technology in Poland in 2008. Obtained from: http://www.stat.gov.pl/gus/5840_800_PLK_HTML.html

The private sector is dominated by sales of low technology products (37.3% in 2008), although since 2002 there has been a downward trend here (46.4% in 2002) caused by the upward trend in manufacture of upper and lower-medium technology (increase of lower-medium technology products from 26.8% in 2002 to 31.3% in 2008, increase of upper-medium technology products from 21.2% in 2002 to 26.1% in 2008). The share of high technology production was 5.3% in 2008, 0.4% more than in 2001, but we cannot discern here any visible upward trend.

In case of companies with foreign ownership this structure looks completely different. It is dominated by the products of upper-medium technology, which constitute 39.6%, that is 2.4% less than in the previous year, though in 2003-2007 there was a visible growing tendency of shares of this technological level products. Also in the analyzed period there was a discernible growing tendency of lower-medium technology, which increased from 16.6% in 2001 to 23.1% in 2008. On the other hand, low technology witnessed a significant decrease, from 40.7% in 2001 to 29.5% in 2008. Therefore the share of sold production of lower-medium and low technology is considerably lower than that of the whole private sector. The share of high technology products is bigger and accounted for 7.8% at the end of 2008. It shows a growing tendency up from 5,8 % in 2005.

On the basis of the tendencies presented above it appears that foreign companies have at their disposal more advanced, developed by the companies themselves, technologies (this explains why they spend less on purchasing knowledge from external sources and allocate more for research and development activity than domestic companies and have a higher share of high and upper-medium technology production). We can also suspect that the technological equipment of foreign companies is reflected in the financial results achieved by them – they are better than those of domestic companies.

The analysis of effects of domestic and foreign companies activities

The analysis of effects of domestic and foreign companies activities was limited to enterprises operating in industrial processing section (according to Polish Classification of Activity, 2004) in Lodz Voivodeship.

Until 31.12.2008 in Lodz Voivodeship operated, 867 foreign companies and 32011 domestic firms in the industrial processing section. We randomly chose one foreign and one domestic company and then obtained their financial statements for years 2005-2008, which were the basis for evaluation of these companies. Chosen companies are comparable.

Company 'A': It was established by a Dutch investor. It is a production company, designing and manufacturing foamed polystyrene containers and blocks, isothermal containers, foamed polystyrene insulations and thermoplastic, polyethylene, ABS, Noryl, polypropylene and polycarbonate components. The production facility in Lodz was opened in 2005. Apart from this facility the company has its factories in Kędzierzyn-Koźle (2000), Pruszków near Warsaw (2002) and in Wrocław (2007). The company also has factories in the Netherlands and a sales office in the Czech Republic.

Company 'B': It is a locally – owned production enterprise. It was established in 1992. The company deals with production of fabrics and bags (also of 'big-bag' type) made of polypropylene and ventilated – economical packages which facilitate the transport of goods (especially loose and granulated), polypropylene fiber – as an additive to concrete and specialist fabrics – non-flammable and antistatic – used by miners.

The evaluation of these two companies should cover their property and capital structure, but the limited size of this paper does not allow us to give it as much attention as we would like. Therefore, we will limit it to only a few most important conclusions resulting from the balance sheet data of these two companies.

First of all, the property structure of both enterprises is typical for industrial enterprises, requiring large production back-up, significant capital expenditure on the production shop, warehouses, purchase of machines and specialist equipment. The long-lived assets of these companies was over 65% of all assets.

The capital structure of the analyzed companies looks quite different. The value of external capital of company 'A' equals over 71.6% of total capital. The relation of own capital to external capital was 0.4 in 2008 – 0.1 more than in the previous year, which should be viewed as a positive phenomenon, though the share of external capital in comparison with own capital is still more than two times higher, which means that most of the company assets are financed by external capital, which is considered a negative situation. The value of long- and short-term liabilities of company 'A' is more or less on the same level and in 2008 it was respectively 50% of the external capital of the company. The value of short-term liabilities during increased 4.4 times in the analyzed period, while long-term liabilities increased 2.1 times. Such a significant growth of short-term liabilities may point at the company's difficulties in financing its current activity.

In case of company 'B', the proportions between own capital and liabilities and reserve for liabilities in comparison to total capital are the opposite. The basis of financing the company

assets is the long-term capital of the enterprise, which should be viewed positively. It constitutes 81.4% of total capital (and shows a growing tendency), while the share of own capital is 79.8% of total capital of the enterprise.

The growing share of long-term capital is a positive phenomenon, as it is tied to the enterprise in the long term and finances its needs, while short-term capital finances the current economic operations of the enterprise.

The analysis of assets and liabilities of the enterprise is insufficient to evaluate its economic and financial situation. In order to achieve this, an analysis of the relationship between these types of capital and corresponding assets is made, based on the following inequalities (Bednarski et al, 1998, pp.102-104):

(1)

$$\frac{\textit{Long-term assets}}{\textit{Long-term capital}} \leq 1$$

(2)

$$\frac{\textit{Short-term assets}}{\textit{Short-term capital}} \geq 1$$

(3)

$$\frac{\textit{Own capital + long-term external capital}}{\textit{Fixed assets}} \geq 1$$

It is commonly assumed that if those inequalities are accomplished, the enterprise is able to maintain paying capacity. It means that this enterprise can discharge its liabilities at every time.

The above relations based on financial statements of companies ‘A’ and ‘B’ are presented in table 3.

Table 3: Analysis of asset and capital relations in companies ‘A’ and ‘B’ in 2005-2008

Relation:	**Company „A”**				**Company ‘B’**			
	2005	**2006**	**2007**	**2008**	**2005**	**2006**	**2007**	**2008**
Long-term assets / Long-term capital	0.57	0.96	1.04	1.05	0.88	0.87	0.20	0.25
Short-term assets / Short-term capital	2.65	1.09	0.95	0.92	1.00	1.03	3.18	2.15
Own capital + long-term external capital / Fixed assets	1.75	1.04	0.96	0.95	1.00	1.02	2.05	1.25

Source: own work

As we can see from the results of horizontal balance relations, company ‘B’ meets the criteria set out by formula inequalities, whereas company ‘A’ in 2007-2008 witnessed some irregularities and the values of analyzed relations slightly divert from the accepted assumptions.

The first irregularity concerns the degree to which the fixed assets of the company are financed by long-term capital. Although fixed assets should be fully financed from enterprise's own capital, the additional financing of fixed assets may be supported by long-term external capital. Analyzing the figures we can notice that company 'A' may experience problems with financing its fixed assets. The opposite relation, namely the relation of long-term capital to fixed assets of the company points at shortage of capital. In company 'B' there is a visible surplus of capital resources, which implies good financial foundations of the enterprise.
The second irregularity concerns the degree to which the short – term company's assets are financed by short – term capital. In this case we can also notice shortage of capital in company 'A', whereas in company 'B' this principle is preserved and the company possesses some surplus of capital.
For our further analysis of the financial situation of the enterprises we will use the so-called current and quick ratios of liquidity (table 4).

Table 4: Ratios of liquidity in companies 'A' and 'B' in 2005-2008

Ratios	Company „A"				Company „B"			
	2005	2006	2007	2008	2005	2006	2007	2008
Current liquidity	2.65	1.09	0.95	0.92	1.00	1.03	3.18	2.15
Quick liquidity	2.49	0.85	0.69	0.74	0.4	0.47	2.25	1.06

Source: own work

The basic measure of the company's ability to pay off all its liabilities is the ratio of current liquidity. Theoretically, the higher the value of the ratio, the better we should evaluate the company's solvency. However, the excessive financial liquidity of the company may also point at ineffective management of free asset resources. Therefore it is assumed that the optimal value of this indicator should range from 1.5 to 2.0. The ratio below 1.2 indicates clear threat to the financial security of a company.
The financial situation of company 'A' gradually deteriorated in the analyzed period. The ratio of current liquidity has been low since 2006 and may indicate financial problems of the company, the more so as there is a clearly noticeable downward trend of the analyzed ratio significantly below its optimal level.
Company 'B', on the other hand, has high financial liquidity. Although in 2007 the ratio of current liquidity exceeded the optimal value, namely 3.18, next year it decreased to the level of 2.15, so we can assume that free resources have been utilized.
The ratio of quick liquidity means the ability of the company to pay off its current liabilities with easily accessible elements of current assets, and its value should be at least 1.
The ratio of quick liquidity for company 'A' was below the recommended value in 2008 and it equaled 0.74, though it increased slightly compared with the previous year. Low value of quick liquidity ratio while the value of current liquidity ratio is relatively high may point at the phenomenon of freezing some resources.

The analysis of general asset and financial situation of an enterprise may be extended with the analysis of sources of financing the economic activities of an enterprise. The capital structure analysis of companies 'A' and 'B' shows that most of the company 'A' assets are financed from external sources, while in company 'B' from own capital. Detailed values of debt ratios are shown in table 5.

Table 5: Debt ratios for companies 'A' and 'B' in 2005-2008

Ratios	Company „A"				Company „B"			
	2005	2006	2007	2008	2005	2006	2007	2008
General debt	0.71	0.77	0.73	0.72	0.52	0.50	0.20	0.20
Share of own capital in financing assets	0.29	0.23	0.27	0.28	0.48	0.50	0.80	0.80
Liabilities to own capital	2.46	3.35	2.74	2.53	1.07	1.01	0.25	0.25
Fixed assets coverage of long-term liabilities	0.92	1.53	1.72	1.87	4.10	5.16	64.31	41.81

Source: own work

In case of company 'A' the general debt ratio is high and has been on a pretty stable level in the analyzed period. At the end of 2008 it reached the value of 0.72, which means that 72% of the company assets are financed from external capital (1% less than a year before, which may be considered a positive phenomenon). A complement to this relation is the share of own capital in financing assets, whose increase is a desired phenomenon in a company.

As we mentioned before, the capital structure of company 'B' looks quite different. The role of a leading source of financing the company assets is performed by its own capital, which accounts for 80% of the financed assets. In this way the level of general debt in this enterprise is relatively low. Most liabilities have been paid off in 2007, which is indicated in a lower value of the general debt ratio from 0.50 in 2006 to 0.20 in 2007 and the following year.

The ratio of liabilities to own capital determines the possibility of covering liabilities with own asset resources. The level of this ratio should not exceed 1.0, and the lower it is, the higher the engagement of own capital in company activities.

So in case of company 'A' the level of this ratio should be viewed negatively. It was 2.53 at the end of 2008 and confirmed higher engagement of external capital in company activity. A different picture can be discerned in company 'B', where the value of the ratio decreased in the analyzed period and equaled 0.25 at the end of 2008, which should be evaluated positively.

The last analyzed ratio determines how many times the value of fixed assets at the company's disposal exceeds its long-term liabilities, which are formally secured in fixed assets of the company. If the ratio has the value close to one, it indicates a clear financial threat to the company.

In case of company 'A' the ratio values show a growing tendency and since 2006 they have been higher than one, though its value at the end of 2008 was only 1.87. In company 'B' the situation was more favorable, because at the beginning of the analyzed period the value of fixed assets was

over four times higher than the value of long-term liabilities, and at the end of the analyzed period it soared to an incredible 41.81.
The above ratios mainly referred to the evaluation of the financial situation of the company. To obtain a wider picture of the company activities we could use the company turnover and profitability ratios.
The turnover ratios, also called the ratio of company efficiency allows us to evaluate the efficiency of the company in using its resources, which is reflected in the results obtained by the company (table 6).

Table 6: Turnover ratios in companies 'A' and 'B' in 2005-2008

Ratios	Company „A"				Company „B"			
	2005	2006	2007	2008	2005	2006	2007	2008
General assets turnover	0.79	0.82	1.00	0.95	1.37	1.59	1.38	0.87
Fixed assets turnover	1.81	1.53	1.52	1.37	2.14	2.56	2.94	1.69
Current assets turnover	1.41	1.75	2.95	3.10	3.78	4.22	2.61	1.78
Stock turnover	25.50	12.66	12.75	15.14	6.32	7.52	8.34	5.58

Source: own work

It is accepted that the positive evaluation is given to a growing tendency of assets turnover ratio, which indicates higher efficiency in using asset resources of the company. This efficiency mainly depends on the structure of assets. A general feature of fixed assets is low turnover. Current assets, on the other hand, are characterized by a high degree of turnover.
Both company 'A' and company 'B' are production enterprises, which are characterized by significant share of fixed assets, therefore the turnover of total assets of the company is slower. The average total assets turnover of company 'B' was 1.03 in the analyzed period and was higher than the average total assets turnover of company 'A' which was 0.89 and which has shown a decreasing tendency since 2006.
In case of company 'A' the efficiency of current assets was distinctly higher than the turnover of fixed assets of this company and was at the end of 2008 respectively 3.10 compared to 1.37. This ratio shows a growing tendency in the analyzed period. On the other hand, in company 'B' this difference is insignificant and at the end of 2008 the value of current assets turnover ratio was 1.87 compared to the ratio of fixed assets turnover which was then 1.69. In both companies there is no unequivocal tendency concerning the growth/fall of the stock turnover, however its value at the end of the analyzed period was significantly lower than in 2005 for company 'A' (15.14 compared to 25.50) and slightly lower for company 'B' (5.58 compared to 6.62), which should be viewed positively.

To sum up the comparisons made so far, let us evaluate the profitability of companies 'A' and 'B', based on the analysis of turnover (sales) profitability ratios, assets profitability and own capital profitability[4].

Table 7: Profitability ratios of companies 'A' and 'B' in 2005-2008 (in %)

Ratios	Company „A"				Company „B"			
	2005	2006	2007	2008	2005	2006	2007	2008
Sales profitability	7.18	5.57	11.4	3.30	-3.22	-1.51	59.9	-12.13
Total assets profitability	5.68	4.55	11.42	3.14	-4.40	-2.41	82.80	-10.54
Fixed assets profitability	13.02	8.51	17.31	4.54	-6.89	-3.88	176.20	-20.55
Current assets profitability	10.08	9.77	33.57	10.25	-12.16	-6.38	156.21	-21.63
Own capital profitability	19.7	16.3	38.5	9.4	-9.10	-5.07	80.93	-14.19

Source: own work

Company 'A' reached the highest level of profitability of particular ratios in 2007. The sales profitability level was 11.4% in that year, while in 2008 it decreased three-fold and its value was 3.3%. The average level of sales profitability achieved by this enterprise in the period was 6.86%, so we can say that the company is profitable. We may say that the profitability of a foreign company is not a typical phenomenon for foreign enterprises. According to statistical data from Central Statistical Office for 2008, among 1374 analyzed foreign companies operating in the industrial processing section in our country, only 57.2% showed gross profit from their operations, while among 867 foreign enterprises operating in all sectors of activity in the Lodz Voivodeship , only 47.9% declared profit (Central Statistical Office, 2010).
Such results of statistical research may be influenced by the specificity of foreign companies operations in the host country. The parent company, depending on its strategy, local legal regulations, type of branch ownership and volume of its turnover, may influence the financial results achieved by the branch. Depending on particular conditions the parent company may attempt to transfer financial surplus to foreign branches which enjoy exemptions from tax or, due to incurred losses, do not pay taxes in a given accounting year, or to the branches which may obtain a relatively higher return rate on a particular investment (Najlepszy, Warsaw 2000, pp.276-277).

[4] The calculations of profitability ratios were made on the basis of the gross profit of companies 'A' and 'B'. Net profit was deliberately omitted in our calculations as there were a lot of calculations mistakes and ambiguities found in available financial statements.

Analyzing the structure of the total assets profitability ratio one should notice that the current assets profitability is more than double the fixed assets profitability (respectively 10.25% versus 4.54%) – a similar tendency appeared with turnover ratios. This enterprise achives quite good result in relation to the unit of invested capital and possessed assets. But there is no clearly visible upward/downward trend characterizes profitability and turnover ratios, therefore it is difficult to assess unequivocally how this enterprise will perform.

The situation of company 'B', on the other hand, looks rather disadvantageously. aAccording to statistical data from Central Statistical Office from 2008, among 650 analyzed enterprises operating in industrial processing sector in Lodz Voivodeship an overwhelming majority, 72.3% achieved net profit from economic activity. (http://www.sat.gov.pl/bdr_n/app/dane_podgrup,nowe_okno?p_zest_id=760838&p_typ=HTML). Company B, despite rather good values of indicators analyzed in tables from 3 to 6, according to profitability ratios seems to be deficient. In 2005, 2006 and 2008 it achives very bad results, especially in 2008 when the profitability ratios are the lowest. Only in2007 the company could be considered as profitable, as each of the analyzed ratios had a positive value at that time. It striking that the enterprise with good financial foundations seems to be unprofitable.

Conclusions

Summing up our analysis of the activities of company 'A', basing its operations on foreign capital and company 'B' – a Polish capital enterprise, we can draw the following conclusions in particular areas:

1) Company assets:
    a. The asset structure of both companies is typical for production enterprises and is characterized by a high share of fixed assets in total assets of the company.

Statistical data show that the biggest investment expenditure is born by industrial and construction enterprises (which is 60.9% of total expenditures of companies) (http://www.stat.gov.pl/bdr_n/app/dane_podgrup.nowe_okno?p_zest_id=760925&p_typ=HTML. According to statistical data from Central Statistical Office, 88.4% of investment expenditure of foreign companies operating in the Lodz Voivodeship is spent on the purchase of new fixed assets (GUS, 2010). This phenomenon is confirmed by the latest research into companies with foreign capital located in the Lodz Voivodeship (Różański, 2010, p.138), which indicates that foreign companies operating in industrial processing invest quite a lot in their development. The biggest investment expenses are born on the purchase of fixed assets. So the investment scale of the foreign company is typical for this group of enterprises.

2) Financial activity:
    a. Most of the assets of the Polish enterprise is financed from own capital, constituting 79.8% of total capital of the company.
    b. In the foreign enterprise, most assets are financed from liabilities, constituting 71.6% of total capital of the company.
    c. The Polish enterprise has better financial liquidity than the foreign enterprise, whose liquidity ratios are lower than the optimal ones.

   d. Total debt of the Polish enterprise is three times lower than the debt of the foreign company.
   e. The Polish company can cover its liabilities with fixed assets a few times better than the foreign company.

3) The effects of the companies' activities:
   a. The foreign company shows better effectiveness in using assets and stock resources than the Polish company.
   b. The foreign enterprise has a few times better profitability results than the Polish enterprise and can be treated as a profitable company.
   c. The Polish enterprise is a deficit-generating company.

Concerning the financial activity of the enterprises, we can notice a phenomenon observed in the already-quoted research on companies with foreign capital share. Domestic companies show lower tendency to attract external capital to finance their activity than foreign companies, which widely use external sources of finance both at the set-up stage and when the enterprise is well-developed (for example funds created by parent-company, bank loans – mainly in their own country, but also in the host country and other countries) (Różański, 2010, pp.168-169). The debt of company 'A' and the relation between liabilities and own capital of the company confirm the existence of this tendency.

We can also notice that the foreign company uses available resources better, has higher yield and profitability, which point at better efficiency of company management. On the other hand, the Polish company has better financial liquidity, three times lower debt and bigger potential of covering its liabilities with fixed assets of the company. It is surprising though, that in spite of good ratios of financial liquidity and debt, the efficiency of the Polish company operations is worse than that of the foreign enterprise. The domestic enterprise is a deficit-generating company.

Summarizing the results of our analysis we can notice that the high level of debt in the foreign company brought very good effects. The foreign company took up the risk connected with financing its assets with external capital, which turned out to be a proper course of action. The contribution of additional capital allowed the company to have at its disposal a bigger amount of resources for financing its development, which created an opportunity to increase the volume of its operations to the level guaranteeing better results. In this way the effectiveness of using own capital was also increased, which probably would not be possible without additional, external funds. The domestic enterprise, in spite of very good financial liquidity is an unprofitable company, managed ineffectively. In this case the values of liquidity ratios did not translate into better possibilities of operating in this company. Perhaps domestic comapnies should follow the examlpe of foreign companies and perform at more risk by making investments financed by external capital. Operating at a limited level of risk despite of giving financial security in the long term may, as in this case, occur unprofitable. It should also be noted that if the formula of current liquidity ratio is a relation of current assets to current liabilities, and the current assets include inventories, receivables, securities and cash, the higher the value of current assets, the better financial liquidity of the company. It may also mean that the company maintains a high level of

inventories which are difficult to dispose of or a high level of receivables, but of the type that is unlikely to be obtained from debtors, which makes the liquidity of the company only seemingly high.

The evaluation of the activities of two randomly chosen companies shows that the financial analysis should be complex. We should not analyze some selected ratios, but evaluate them jointly, because then the evaluation of the company activities is objective.

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