

IV. Structural analysis of book value added of foreign-controlled and domestic non-financial corporations in 2000-2004

Development of book value added and related indicators of corporations' efficiency and effectiveness is one of the basic indications of foreign investors' activities in the Czech economy. This study contains an abridged summary and conclusions of an analysis³, which compares the development of book value added and related financial indicators of foreign-controlled corporations with the development of domestic corporations, private and public⁴, in 2000-2004. The study is a follow-up to materials published in 2003⁵. The analysis covered the set of non-financial corporations with 100+ employees; all financial data are at current prices.⁶

In the reference period – from 2000 to 2004 – structural changes connected with ownership transfers were in progress in non-financial corporations simultaneously with trend changes related to the specific character of individual institutional subsectors, i.e. foreign-controlled corporations and domestic corporations, private and public.

The development trends of all indicators observed shared a rising tendency in foreign-controlled corporations and a downward trend in domestic ones. The values of financial indicators (capital sources and profit/loss making) were on the increase in total, i.e. growth of foreign-controlled corporations was higher than decreases in domestic corporations. However, this does not hold for the development of either employment or number of corporations – growing employment in foreign-controlled corporations was not high enough to offset decreases in domestic ones; similarly, there was a decrease in the number of corporations with 100+ employees under a concurrent rise in the total number of foreign-controlled corporations.

Sources of enterprising

Entrepreneurial activity requires basic sources that are twofold: labour and capital (or property). The forms of utilised capital sources can have long-term or short-term character, for example loans, bank credits or emitted bonds, obligations to suppliers, advance payments by buyers, reserves for claims or inventories and the like.

The following indicators have been chosen to observe development of the sources for this analysis: number of corporations, number of employees (average full-time equivalent), long-term tangible and intangible property, total capital (liabilities), equity capital and outside sources (= liabilities minus equity capital).

Basic sources of enterprising in the sector of non-financial corporations with 100+ employees developed differently. The total value of long-term property stagnated in the reference period from the year 2001. Total capital sources saw a rise, whereas the total pool of labour showed a decreasing or stagnating development trend in 2004.

The total increase in capital sources resulted in particular from an increase in equity capital, whereas the development of outside sources more or less stagnated in total. Foreign-controlled corporations reported growth of both equity capital and outside sources, while in domestic corporations, public and private, equity capital stagnated from 2001 and outside sources showed a decreasing trend.

Foreign-controlled corporations raised sharply their share of long-term property (from 2.3% to 39.5%) and of capital sources – liabilities in total were up from 25.9% to 41.2%, of which equity capital from 20.1% to 35.1% and outside sources from 31.2% to 48.0%.

The property and capital shares of foreign-controlled corporations increased simultaneously with decreasing shares of domestic corporations, particularly public ones – long-term property from 37.8% to 22.1%, equity capital from 41.9% to 25.2% and outside sources from 21.5% to 11.4%. Domestic private corporations recorded a lower decrease in long-term property from 39.9% to 38.4%, an increase in equity capital from 38.0% to 39.7% and a decrease in outside sources from 47.2% to 40.6%.

Foreign-controlled corporations utilised outside sources for the purpose of enterprising to a larger extent than domestic ones, as proved by the development of the share of equity capital in total liabilities from 37% to 45%. This share in private domestic corporations grew from 43% to 53%. By far highest was it in public corporations (from 64% to 71%) where this share is probably related to a considerably higher ratio of long-term property to total capital sources (liabilities) (approx. 65% as against 45-50% in private corporations, domestic and foreign).

³ Sources of Enterprising and Book Value Added of Non-financial Corporations in 2000-2004, CZSO code 1532-05

⁴ CZSO breakdown by institutional subsectors (ISECTOR), non-financial corporations:

public = ISECTOR 11001,

private national corporations and entrepreneurs (in the text "domestic private") = ISECTORS 11002+14100+14200,

foreign-controlled private corporations (in the text "foreign") = ISECTOR 11003.

⁵ Structural Analysis of Large Non-financial Corporations in 2003, CZSO code 1528-04;

<http://www.czso.cz/csu/edicniplan.nsf/p/1528-04>

Economic Efficiency and Effectiveness of Public, Private National and Foreign-controlled Production and Trading Corporations in 2003; <http://www.czso.cz/csu/csu.nsf/informace/ts041104.doc>

⁶ Source of data for 2000-2003 were databases based on annual questionnaires P5 (30 June 2005), data for 2004 is from quarterly questionnaires P3: (semidefinite, revised referring to 21 April 2005).

Shares in the number of employees in foreign-controlled corporations grew slower than shares in property and shares in capital (from 23.8% to 34.8%) and their growth was not sufficient to compensate for the decrease in employment in domestic corporations (growth by 151 thousand, decreases by 221 thousand). With respect to the number of employees, domestic private corporations still maintain the decisive importance, even though their share dropped from 59.2% to 52.3%. Public corporations saw a decrease in the share of employment from 17.0% to 13.0%.

Foreign investors are more interested in large corporations than in medium-sized and small ones, which is documented by a relatively lower percentage of large corporations in the number of corporations (increase from 22.1% to 28.3%) than their percentage in long-term property and capital sources. In spite of its fall from 74.2% to 68.8%, the highest percentage of the number of corporations with 100+ employees thus remains in the subsector of domestic private corporations.

Book value added

Book value added represents an increase in value produced or goods sold as against the value of material, energy and services inputs or of goods at purchase. This increase is achieved by effective utilisation of labour and capital sources of enterprising in production and trading processes. Book value added is calculated as outputs minus production consumption plus trade margin⁷.

Through effective utilisation of labour and capital sources of enterprising in production and trading processes, value added in total grew from CZK 711.9 billion to CZK 934.5 billion, i.e. by CZK 222.6 billion (the average year-on-year index being 107.1) in the reference period, i.e. 2000-2004. Growth in foreign-controlled corporations was CZK 206.4 billion (the average year-on-year index 117.9) and growth in private domestic corporations stood at CZK 51.5 billion (the average year-on-year index 103.7). Public corporations registered a fall of CZK 35.4 billion (the average year-on-year index 95.1).

This proves that foreign-controlled corporations were of decisive importance in terms of annual growth of book value added; at the end of the reference period, their total share reached a higher weight than that of domestic private corporations (46.3% as against 43.0%). Under the above-mentioned development of annual absolute values, the shares of individual ISECTORs in value added changed as follows: rise by 14.5 percentage points (from 31.8% to 46.3%) in foreign-controlled corporations, decrease by 6.1 percentage points (from 49.1% to 43.0%) in private domestic corporations, and fall by 8.3 percentage points (from 19.0% to 10.7%) in public corporations.

At the end of 2004, the share of foreign-controlled corporations in book value added was considerably higher than shares in basic sources, i.e. by 11.5 percentage points higher than share in employment (46.3% as against 34.8%) and by 11.2 percentage points higher than share in equity capital (46.3% as against 35.1%). These figures show that productivity and effectiveness of foreign-controlled corporations is higher than productivity and effectiveness of domestic corporations.

Labour productivity – book value added per employee

There were marked differences in labour productivity measured by the level of book value added per employee between individual ISECTORs. Labour productivity was on the increase in all ISECTORs in the reference period, but the growth was swiftest in foreign-controlled corporations, so that the gap between them and domestic corporations widened. The balance of the growth trend was interrupted in 2002 when public corporations recorded a drop in labour productivity and the remaining two subsectors registered a considerable slowdown of growth or stagnation. On the other hand, average wages showed a balanced growth trend throughout the reference period in all ISECTORs. Foreign-controlled corporations paid also the highest average wages all through the years 2000-2004.

The ratio of productivity to average wages was the highest in foreign-controlled corporations and rose from 3.0 to 3.3 during the reference period. This ratio stagnated at approx. 2.4 in domestic private corporations and dropped from 2.7 to 2.2 in public corporations. The overall development of this ratio in non-financial corporations with 100+ employees reached a moderately growing trend from 2.6 to 2.8, which represented a slightly faster growth of labour productivity than growth of wages, i.e. a positive relation in the business sector from the point of view of inflation development.

Division of book value added

During the subsequent economic processes, book value produced is divided into four basic types of economic entities: corporation (or its owners), employees, the state and creditors. Individual ISECTORs varied considerably in the size of their shares for each type of entities.

The share of employees based on personnel costs was lower in foreign-controlled corporations (45.3% on average) than in domestic private (57.3% on average) and public (65.6% on average) corporations. In 2000-2004, the shares of personnel costs were stable in both domestic and foreign-controlled private corporations, while this share was very volatile in public corporations (particularly in 2002).

⁷ Book value added = (Outputs – Production Consumption) + Trade Margin = (Sale of Own Goods and Services + Change of Intra-corporation Inventories of Own Production + Capitalisation + Sale of Goods for Resale) -- (Material and Energy Consumption + Services + Costs of Goods Sold)

In terms of net profit⁸ shares, owners of foreign-controlled corporations gained a larger share in book value added (17.7% on average) than owners of domestic private (9.8% on average) and public (12.9% on average) corporations. Net profit shares showed growing development trends in all ISECTORS.

The state levied taxes⁹ from foreign-controlled corporations amounting regularly to approx. 8% of book value added in the reference period. The size of the share paid to the state as taxes by domestic corporations was rather unstable, ranging between 4% and 7% in domestic private corporations and between 7% and 12% in public corporations.

Falling trends were in the shares of interest costs in value added falling on creditors, as they were in the shares of other corporations' costs (such as depreciation, reserves produced...).

The division of value added demonstrates clearly how higher productivity of labour enables foreign-controlled corporations to spend a markedly lower share of value added on personnel costs of employees than domestic corporations in spite of the fact that average monthly wages in foreign-controlled corporations were roughly by 10% higher throughout the reference period. Owners of foreign-controlled corporations thus gained a larger share in value added than owners of domestic corporations by way of net profit, and at the same time they regularly paid the corresponding share of value added as taxes. It means that growth of labour productivity opens a space for increasing incomes/revenues of all economic entities participating in the division of book value added, in particular of employees, owners and the state.

⁸ Net profit = post-tax profit; for 2004, this data was calculated for orientation as the sum of quarterly data on pre-tax profit minus income tax estimate amounting to 28%.

⁹ Taxes, fees and charges in 2000-2003 include: income tax, road tax and motorway tax disc charge, property tax, other taxes, fees and charges, of which: environmental pollution charge, court fees and management charges. For 2004, income tax is calculated for orientation as 28% of the sum of quarterly data on pre-tax profit; other taxes, fees and charges are not included.