

## **Tendencies of profitability changes in furniture industry companies in Poland in the context of global economic crisis**

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**Abstract:** *Tendencies of profitability changes in furniture industry companies in Poland in the context of global economic crisis.* Global economic crisis, to a greater or lesser degree, has had a negative influence on the economic situation in every country, hence it has influenced companies' financial condition. It refers to furniture industry in Poland as well since the industry is strongly linked with international markets – almost 90% of sold production is destined for export. One of the most important aspects of companies' management is their profitability. Thus the article presents changes in the level of average profitability indexes of: sales, assets and capital in furniture industry companies compared to processing industry.

*Keywords:* economic crisis, industrial processing, furniture industry, profitability indexes

### INTRODUCTION

At the turn of 2007 and 2008 financial crisis began in the United States, which transformed into global economic crisis. Already in the year 2008 it was emphasized that the economic situation in the world was going to be poor for a long time and it had to be taken into consideration (resulting from, among others, continuity of changes in the financial sector, possibility of inflationary pressure, considerable halt to globalizing processes and the necessity of solving gigantic problems of public finance) [*Global Financial Stability Report - GFSR Market Update*, 2008]. As it was emphasized by the analysts of the international advisor company Deloitte, in the first quarter of 2013 weakening market environment was still tangible in the euro zone and it is possible that the situation will not change in the next quarters. It means that the “euro zone” has been in recession for more than six quarters, the longest recession in its 14-year history [Global Economic Outlook 2013].

Negative consequences of the crisis influence all market participants, that is companies functioning on the market as well. Apart from the loss of financial liquidity, which in result may lead to bankruptcy, one of the financial symptoms of the crisis is a considerable fall in company profitability. It entails significantly lower amount of gross profit (net as well) or the net loss thus deterioration of the basic profitability indexes (sales, assets and own capital) [Bednarski 2007].

The analysis of profitability indexes is a more universal tool than comparison of financial results in absolute values because these indexes show financial effects in relation to sales value, involved assets or capitals. Profitability means rendering sales revenue surplus over deductible costs of generating revenue, the measure of profitability is the relation between generated profits and involved capitals or the effects of the used factors of production [Kaczmarek 2007]. Profitability indexes, thus are the mark of management efficiency of a given subject [Walczak 2007] and demonstrate most precisely management effectiveness in a company [Sierpińska, Jachna 2004].

### OBJECTIVE AND RESEARCH METHODOLOGY

Polish furniture industry over the last 60 years has developed the position of one of the world leaders in furniture trade and has become an important branch of national economy [Adamowicz, Wiktorski 2006]. In 2012 Poland ranked fourth in the world as regards the value

of exported furniture. The first three places were occupied by China, Italy and Germany and if taking only European exporters into consideration, Poland comes third after only Germany and Italy [Grzegorzewska et al. 2012]. Economic links of Polish furniture market with foreign countries are undoubtedly an important stimulus for development. However, in times of world economic stagnation industries and companies strongly dependent on foreign contractors may experience its negative consequences more acutely.

The main research objective was to identify tendencies of changes in profitability of companies operating in furniture industry in Poland in the context of global economic crisis. Average values of chosen profitability indexes have been analysed for economic subjects operating on the furniture market. The primary source of the research material were reports obtained from data base by PONT INFO covering the years 2007-2012. The reports covered annual data regarding average values of financial indexes that have been drawn up for groups of companies singled out according to Polish Classification of Economic Activities (*Polska Klasyfikacja Działalności, PKD*).

In the analysed subjects three groups of companies have been singled out. The division criterion was the level of employment:

- group I– enterprises employing from 10 to 49 people,
- group II – enterprises employing from 50 to 249 people,
- group III– enterprises employing more than 249 people.

In the paper results of comparative research have been presented regarding average profitability indexes obtained for furniture enterprises (section 31.0 of Polish Classification of Economic Activities – “Furniture manufacture”) compared with the results for C section companies – “Industrial processing”, which comprises among others furniture industry.

## RESEARCH FINDINGS

One of the most important profitability indexes is the net rate of profit, calculated as a relation of net profit to revenue altogether. Over the analysed period in industrial processing there was a fall in net profitability regardless of the maintained level of employment (table 1). Both in 2007 and five years later the highest value of the index was noted in enterprises employing from 9 to 49 people. In this group the level of net profitability decreased from 6.14% to 4.30%. Similar tendencies were observed in medium and large plants of processing industry (fall of 1.65 percentage points and 1.76 percentage points respectively).

**Table 1.** Level of net rate of profit in wood industry and industrial processing in Poland in the years 2007-2012 [%].

Level of employment	2007	2008	2009	2010	2011	2012
Industrial processing						
From 10 to 49 employees	6.14	4.06	3.87	4.85	4.14	4.30
From 50 to 249 employees	5.28	3.28	3.99	3.95	3.75	3.63
Over 249 employees	5.45	2.60	4.02	4.25	4.10	3.69
Furniture manufacture						
From 10 to 49 employees	6.31	2.12	6.18	3.92	3.80	5.50
From 50 to 249 employees	2.20	2.92	3.78	3.69	3.90	3.33
Over 249 employees	3.90	1.64	5.66	5.46	4.13	4.21

Source: compiled on the basis of data obtained from reports by PONT INFO covering the years 2007-2012.

Fall of the net profitability index was noted also in small enterprises in furniture industry. In 2008 its level was almost three times lower than a year ago and it amounted on average to 2.12%. In the years 2010-2011 again a fall in the level of net profitability was noted in small furniture plants. A different situation occurred as regards medium and large enterprises operating on this market. Over the analysed period the level of the index in

question rose from 2.20% to 3.33% in companies employing from 50 to 249 people and from 3.90% to 4.21% in plants with the highest employment. In the last group the lowest profitability index was noted in 2008 and it amounted to 1.64%. Similar tendencies of changes were observed as regards operating profit margin depicting the relation between operating profit and operating revenue.

The return on assets (ROA) index expresses percentage relation between the value of financial result and an average level of fixed and/or current assets involved. Its basic advantage is that it takes into account in a broader sense than other profitability indexes the influence of effectiveness of exploitation of capital resources on financial result [Bednarski 2007]. Average value of the index oscillates between 5-8% [Nowak 1998]. It needs to be noted that for production companies the index takes lower values than in service companies where the level of assets is much lower. A significant fall in the value of this index in the following years of operating proves little ability of generating profits with the capital resources of the company and is worthy of further analysis in detailed study.

From the conducted research it follows that the highest level of assets profitability index was observed in processing industry in 2007 (table 2). It referred to all groups of companies singled out in terms of employment. The highest average value of the analysed index – 9.83% was noted in subjects employing between 9 and 49 people. In medium and large companies the index on average amounted to 8.03% and 8.11% respectively. In 2008 profitability of assets decreased significantly in all groups of industrial companies. The index amounted to 6.31%, 4.88% and 3.77% respectively. In the following years the situation in processing industry stabilized, however, at the end of the analysed period the values of assets profitability index were still much lower than before the crisis time in the year 2007. The level of the ROA index noted in 2012 was 3.01 percentage points (small enterprises), 2.67 percentage points (medium enterprises), and 2.44 percentage points (large enterprises) lower.

**Table 2.** Value of ROA index in furniture industry and industrial processing in Poland in the years 2007-2012 [%].

Level of employment	2007	2008	2009	2010	2011	2012
Industrial processing						
From 10 to 49 employees	9.83	6.31	5.37	6.68	6.51	6.82
From 50 to 249 employees	8.03	4.88	5.46	5.55	5.39	5.36
Over 249 employees	8.11	3.77	5.48	5.95	6.09	5.67
Furniture manufacture						
From 10 to 49 employees	11.71	5.77	9.65	5.66	5.67	8.55
From 50 to 249 employees	4.01	5.57	6.05	5.78	6.43	6.02
Over 249 employees	6.42	4.40	8.43	7.68	6.36	6.12

Source: compiled on the basis of data obtained from reports by PONT INFO covering the years 2007-2012.

In furniture industry the situation of companies as regards assets profitability was more diverse. In 2007 the highest level of the ROA index (11.71%) was noted in small enterprises employing between 9 and 49 people, however, a year later its value was almost two times lower. In the following years profitability of assets in this group of companies was at a similar level and at the end of the period it amounted to 8.55%. Different tendencies were observed in companies employing from 50 to 249 people. Over the analysed period the profitability index amounted to 1.99%. And in large enterprises, employing more than 249 people, the highest profitability of assets index (8.43%) was noted in 2009 and since then there was a noticeable gradual fall up to the end of the analysed period (6.12%).

An important aspect in assessment of companies' profitability is the return on equity (ROE) index that depicts the relation between financial result and average own capital. It has particular importance for the owners of an enterprise because it allows for them to assess the

effectiveness of the invested capital. Every company owner is interested in the highest value of the return rate on the capital involved. Unfavourable phenomenon is then a minus value of the index or its considerable decrease maintained in the consecutive periods.

In the years 2007-2012 in companies operating in processing industry there was a considerable decrease in the relation between net profit and own capital (table 3). At the end of the analysed period the index was lower of respectively: 7.87 percentage points (small enterprises), 5.67 percentage points (medium enterprises), and 5.08 percentage points (large enterprises). The lowest level of own capital profitability was noted in 2009 in the group of companies employing from 9 to 49 people and in 2008 in companies with employment of between 50 and 249 people and more than 249 people.

**Table 3.** Value of ROE index in furniture industry and industrial processing in Poland in the years 2007-2012 [%].

Level of employment	2007	2008	2009	2010	2011	2012
Industrial processing						
From 10 to 49 employees	22.55	14.58	12.17	15.79	16.38	14.68
From 50 to 249 employees	16.71	10.25	11.30	11.64	11.59	11.04
Over 249 employees	16.20	8.02	10.95	11.64	12.56	11.12
Furniture manufacture						
From 10 to 49 employees	25.41	15.38	19.21	11.90	12.30	16.59
From 50 to 249 employees	9.94	11.56	11.49	11.63	12.24	11.35
Over 249 employees	14.33	6.21	18.09	14.12	12.57	11.13

Source: compiled on the basis of data obtained from reports by PONT INFO covering the years 2007-2012.

The decrease in the level of assets profitability was noted also in companies operating in furniture industry. The level of the index fell in terms of small companies from 25.41% to 16.59% and in the group of large enterprises whose employment is over 249 people (from 14.33% to 11.13%). As regards medium furniture enterprises the value of the index rose by 1.41 percentage points, which means that profitability of own capital slightly rose.

## CONCLUSION

Negative consequences of the financial crisis, which began a few years ago in the United States and transformed into global economic crisis have been tangible in most countries until today. One of the important aspects of companies functioning in the context of this economic situation is maintaining the appropriate level of sales, assets and capital profitability.

Research findings conducted by PONT INFO show that in terms of net rate of profit in small enterprises operating in furniture industry a fall in the value of the index was noted in the years 2007-2012. As regards medium and large furniture plants in Poland, however, a reverse situation was observed – a slight increase in profitability in this field.

Over the analysed period the highest value of assets profitability index in furniture industry was noted in companies employing from 10 to 249 people. An exception were years 2010-2011 when the highest assets profitability was observed in companies employing more than 249 workers. Moreover, in small and large furniture enterprises on average a decrease in the level of assets profitability was noted in the years 2007-2008. Similar tendencies of changes were observed as regards the ROE index. Only in plants employing from 50 to 249 people the level of this index increased over the analysed period.

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Streszczenie: *Tendencje zmian rentowności przedsiębiorstw branży meblarskiej w Polsce w kontekście globalnego kryzysu gospodarczego.* Globalny kryzys gospodarczy w mniejszym lub większym stopniu wpłynął negatywnie na sytuację gospodarczą w każdym kraju, a zatem i na kondycję finansową przedsiębiorstw. Sytuacja ta dotyczy również branży meblarskiej w Polsce, a wynika to z silnych jej powiązań z rynkami zagranicznymi - blisko 90% produkcji sprzedanej mebli przeznaczana jest na eksport. Jednym z ważniejszych aspektów gospodarowania przedsiębiorstw jest rentowność prowadzonej działalności. Zatem w artykule zaprezentowano zmiany w poziomie przeciętnych wskaźników rentowności: sprzedaży, aktywów i kapitału w przedsiębiorstwach branży meblarskiej w Polsce na tle przemysłu przetwórczego.

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