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# THE ROLE OF PUBLIC RELATIONS IN INTRODUCING PRIVATE FACTORS TO POLISH ECONOMY DURING ITS TRANSFORMATION IN 1990S

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**Abstract:** In 1990s in Poland Public Relations tools were used in system transformation. The main goal was to build new political and economic system based on democracy and free market economy, so privatization was necessary. In the paper there are presented two cases of the changes that took place in that time and the meaning of PR in these processes.

**Keywords:** economic transformation, entrepreneurs, public relations, privatisation

## INTRODUCTION

Public Relations was of great importance for economic transformation that took place in Poland in 1990s. The change of the command-and-control economy into free market, gained social acceptance mostly thanks to PR instruments. In the paper were analyzed two cases when Public Relations instruments were used to achieve economic purposes.

First one is an acquisition of Warsaw Factory for Passenger Automobiles at Żerań (*Fabryki Samochodów Osobowych na Żeraniu*, in short FSO) by Korean Daewoo. International expansion has been one of Daewoo's strategic goals since its beginnings, so an acquisition of FSO, that in 1990s was close to bankruptcy, was just a part of a bigger plan. From Polish point of view, this transaction had not only economic, but also socio-political consequences on an European scale. PR played crucial role in establishing good relations with employees and public opinion and as a result lead to sort of acceptance for the deal.

Second one is a transformation of a domestic businessman into an international investor, which emphasizes how Polish economy had to develop market mechanisms and how important in these processes were entrepreneurs. Economic transformation that started in 1989, restored the term "private entrepreneur" which meant not only an owner, but also an employer. Trust and image appeared on the surface of business activities also thanks to its international aspects.

The choice made by authors to present Jan Kulczyk's path was not coincidental. Since the beginning of Polish transformation he got the biggest attention from the media. Called "a Polish oligarch" Jan Kulczyk is an example of a person who established his position in Polish economics mostly because of political connections. In a relatively short time he became an international investor, playing an important role on mergers and acquisitions on a global scale.

In the paper authors intended to show the importance of public relations in transformation processes. Although the concept of transitional PR was born in Poland at the end of 1990s [Ławniczak, 2001] and is not anything new, the paper presents its practical aspects. In both analyzed cases there are described privatization processes in the broad sense – directly in acquisition of FSO and indirectly when a private entrepreneur is born and turn into a businessman in western meaning of the term.

## 1. NEGATIVE IMAGE OF PRIVATIZATION PROCESSES

Some scholars declare their support for introducing private factors to the market because of their fiscal benefits and importance for market mechanisms. Thanks to increasing budget income and decreasing costs of helping public companies, public finances can be better balanced [Torp, Rekve, 1998]. Moreover, growing competition should help to secure consumers' rights. Both of these results aims at improving situation of the state by increasing opportunities for business development and improving efficiency of the market economy [Kowalska, 2009].

Unfortunately some of researchers proved the impact of privatization on economic efficiency in developing countries is not so obvious. According to their findings every econometric analysis in this subject has its weaknesses and don't allow to state without doubts the positive influence really occurs. Free competition truly promotes the development of new services, productivity of labor and capacity utilization, but the importance of it is statistically significant only for the last factor [Parker, Kirkpatrick, 2002].

In research works mentioning the issues of privatization [Pollitt, 1997; Bortolotti et al., 1999; Wallsten, 2001] it is clearly emphasizes that in order to obtain satisfactory results, privatization should be completed by the pro-competitive regulation and should be a part of wide scale reforms. Additionally, there is a danger of destroying existing competition by taking over state-owned enterprises by groups with a sufficient impact on the political factor but lacking the necessary skills or experience in the field of management. Therefore it is important to remember about political aspects when analyzing privatization [Trop, Rekve, 2001].

In 1990s in Poland privatization processes has just started. Polish people were in the eye of the biggest storm in their modern history. However Poland as a country was born almost one thousand years earlier and democratic structures were not something completely new, there were specific circumstances with internalization process in progress requiring new models and rules. To create free market economy private sector is definitely needed. Barter exchange typical for previous system was replaced by market exchange based on prices, interest rates and profit and loss account in mind. For people ready to risk and act accordingly this new reality was a paradise, but for most of the society it was a huge shock.

As a result, Poles were afraid of rapid changes. Mostly they feared to lose control over their work environment and to be taken over by foreign capital. It

hasn't change till today. According to public pool from 2009 performed by PBG DGA most people in Poland are against privatization in the narrow meaning of the term (selling out public companies and its assets). Their negative attitude is mostly based on their opinion of privatization as [Barysz, 2010]:

- selling out national properties (41%),
- corruption, theft and similar activities (35%),
- increasing unemployment rate (34%).

Because of this fears international mergers and acquisition that has taken place in Poland since 1990s and newly born business class was under constant suspicion. In such circumstances Public Relations instruments were of key importance for the success of economic transformation, especially when dealing with conflicts initiated by strong unions.

## 2. DAEWOO AND FSO MERGER

FSO was a Polish automobile manufacturer that had been operating since 1951. The contract of joint venture between Korean Daewoo and FSO was initialed on 14 November 1995. On 14 March 1996, with a notarial deed there was established Daewoo-FSO Motor. The deal was done just in time – according to the Supreme Audit Office “increasing competition on Polish automotive market in 1997 and decreasing demand for ex-FSO cars proves waiting with privatization of the company would create a risk of bankruptcy in near future” [Raport NIK... 1998]. During the negotiations it was known Poland's accession to EU was just a matter of time, so for Daewoo takeover of FSO was a way to get access to EU markets. This is how the Korean manufacturers wanted to “catch up” with the Japanese automotive companies which were already present in Europe [Gołata, Ogiejko, 2010].

The birth of Daewoo-FSO triggered off changes to previously existing corporate structures, including the communication and information policy. Public Relations Department was established, reporting directly to the VP [Piątkowska, 1999] with three separated divisions:

- External Information, in charge of the information policy, headed by the company's spokesperson as a bridge between the company and external stakeholders; was involved with monitoring domestic and foreign press, drafting speeches for the company's president, doing follow-ups and, most of all, monitoring information coming out of the company,

- Internal Communications, providing information from board to employees and involving them in corporate's matters through in-house bulletins *Kalejdoskop* and *Aktualności zatogi* and TV,
- Company Identification and Promotion responsible for promoting corporate's image without promoting the product, i.e. through fairs, exhibitions and orientations parties [Gołata, Ogiejko, 2010].

There was also *Centrum Daewoo*, a subsidiary of Daewoo, in charge of product promotion and advertising.

### 2.1. Internal communications at the pre-merger stage

The chief sources of information and main channels of communication in FSO were corporate bulletins (*Aktualności zatogi* and *Kalejdoskop* bi-weeklies). *Aktualności zatogi* was assumed to offer a platform for exchanging opinions among the employees and was not available outside the company. On the other hand, *Kalejdoskop* was a bulletin for internal and external communications. From the very beginning, the content of both bulletins gave rise to conflicts. "Solidarity" trade unionists in 1995 placed an article in no. 3 and no. 6 of *Aktualności zatogi* depicting *Kalejdoskop* bi-weekly as a magazine filled with "the so-called propaganda of success as spread by communists not for the benefit of the employees but to make the board feel better about themselves".

At the pre-merger stage of the transaction bulletins included articles supporting three theses [Gołata, Ogiejko, 2010]:

- the works will close down without a new car model,
- the new car necessitates capital,
- without ownership changes there will be no capital, car or factory.

The articles' titles: "FSO: to be or not to be", "Quality as FSO's opportunity", "For FSO not to stay put after the gun fired..." and the Managing Director's remarks that "the only realistic opportunity is to look for private capital at home and abroad" and that "no private capital will invest in a company with an obscure ownership status" [*Aktualności*, 1995, no. 6] left no-one in doubt about the goal of this information campaign.

In mid-March 1995 the FSO Work Council organized a training session dedicated to privatizing state-owned companies. It was attended by the FSO trade unionists who described merger of FSO and Daewoo as political games and threat to employees' rights. At the same time in corporate bulletins

took place increasingly fierce campaign for prompt privatization. According to the Board, the most suitable option (presented in the bulletins) was capital privatization by transforming FSO into a company wholly owned by the State Treasury. The Work Council together with trade unions were against this method, suggesting privatization by means of employee share ownership (51% for the employees and 49% for the strategic investor). The FSO Work Council was also concerned about little influence of employees on the company's future after merger, possible reduce of headcount, dispose or change of appropriation of company's assets in order to maximize profits and even problems with tax or corporate obligations [Gołata, Ogiejko, 2010]. Bearing in mind resistance to privatization of FSO, it is surprising that information about talks with the Koreans wasn't mentioned in either bulletin. The employees were informed about the situation only once with a letter of intent.

At that time there was created FSO cable TV. The company Director emphasized that "the position of Daewoo offers great opportunities for the Polish automotive industry", "FSO is facing an opportunity and we must not take our time", "[...] this project heralds the growth of our factory", "[...] this is a historical moment", "Today world media are covering FSO" *Aktualności*, 1995, no. 29). The cable TV started airing information programs on FSO and Daewoo as well as interviews with managers and representatives of Daewoo. The first interview was with Kim Woo-choong, chairman of Daewoo during his visit at FSO on 17 August 1995.

Support for the "Korean way" granted by the FSO Dealerships Association played an important role in influencing the employees' opinions. In a letter to the Board published in a corporate bulletin, representatives of the Association expressed their "deep appreciation and great relief that the letter of intent had been signed" while FSO employees "are fighting for FSO, Polish industry and Poland" [*Aktualności*, 1995, no. 32].

Corporate bulletins and TV assumed an educating role. They were tools to explain the nature of a joint venture, options of privatization and its consequences to employees. To convince employees to the deal Consultation Point was established for those interested in the issues of FSO privatization as well as an internal hotline. TV FSO showed independent, external experts like Professor Andrzej Patulski from the Warsaw University who answered the employees' questions on employment safety, remuneration, the role of trade unions and the employees' impact on decisions made in the new company [Gołata, Ogiejko, 2010].

The task of public relations employed in the corporate bulletins was also overcoming the potential future cultural barriers between Poles and Koreans. *Kalejdoskop* sported a series of articles presenting the standards and habits in Korea as well as the Confucian ethics [Węgiel, 1995]. The employees' knowledge of Daewoo was equally skimpy and for this reason *Kalejdoskop* presented clippings from foreign newspapers about the company. Just before the Work Council made its decision in favor of a merger with Daewoo, there was published an article entitled "Who is Kim?" [*Kalejdoskop*, 1995], presenting Daewoo's founder, Kim Woo-cho-ong.

In September 1995 while a meeting of the Work Council Tadeusz Soroka, the then deputy minister of industry and trade supported the idea of disposing of the state-owned FSO company in order to make an in-kind contribution to the joint venture with Daewoo. However The Council mentioned the employees' skepticism about the suggested privatization path, they announced together with the management board approval of the future contract with Daewoo [Gotata, Ogiejko, 2011].

In October 1995, *Aktualności* presented a reprint of an interview with Leszek Juchniewicz, the then deputy minister of ownership changes who commented on employee share ownership claiming there is a need for assets to have the company grow and employees don't have enough funds [*Kalejdoskop*, 1995]. Another reprint related to a statement by Tadeusz Soroka who said FSO had a poor chance of becoming an employee-owned company because costs of such privatization would have had to take employees who simply couldn't afford to pay them. [*Kalejdoskop*, 1995]. Both articles were placed on several boards in FSO and their message was blunt: the employees could not afford share ownership.

The information policy and communications at the "pre-merger stage" were under time pressure: Daewoo's global plan suggested that negotiations had to end by 31 October 1995. Korean executives emphasized their willingness to insist. If FSO failed to sign an agreement, Daewoo would choose another location in Poland. The managers of the Żerań factory acted as if the majority of the employees supported a joint venture with Daewoo. On 14 March 1996, Daewoo-FSO Motor was established and referred to as "contract of the century in the Polish automotive industry" [Gotata, Ogiejko, 2011].



## 2.2. Post-merger changes in internal relations

As a result of the deal *Aktualności zalogi* changed its name to *Aktualności zalogi Daewoo-FSO* while in the logo of *Kalejdoskop*, the characteristic FSO logo was replaced with the Daewoo logo and more articles were dedicated to issues regarding Korea. An article "Korea closer to Żerań" [Rudy, 1996] was a recollection of a visit to Daewoo works in Korea paid by members of a team streamlining cooperation between Daewoo and FSO. They praised the work organization, state-of-the-art technology, great hospitality and conscientiousness of Koreans. Another article, "A Miracle on the river Han" described Korea's economic growth while the successive four pages were devoted to Kim Woo-choong's freshly published book "The Korean Tiger. My Way to Success".

Not all of changes met with positive reactions, i.e. placing portraits of Kim Woo-choong, Daewoo's founder and claims intended to motivate employees: "Dreams change the world", "Our goal is 100 spare parts per minute", "Joint efforts lead to success" that were reminders of the so-called real socialism. Such ideas took root in Seoul and were enforced as part of globalizing the concern's subsidiaries. Polish PR Department was rather marginalized although it initiated monthly meetings of leaders and representatives of trade unions, the factory's administration as well as scientific and technical associations at the so-called round table [Gołata, Ogiejko, 2011].

Other tool used to improve communication between Polish and Korean employees was publication of "The Korean Phrase Book" and courses of English for Poles and of Polish for Koreans. Korean culture and heritage were promoted by encouraging employees to read books by Korean authors. Communication between the board and employees was also instigated by means of 10 signboards placed in the factory with vital information, coverage of conferences and training sessions, press clippings dedicated to Daewoo-FSO and information about the car industry. Their content was updated every two weeks.

At the initial stage, the in-house TV was used to distribute information on Daewoo and FSO. Later on, the station also broadcast social programs, presented employees, informed about cultural events and world car trivia. This new medium was criticized by some employees who thought that the money could have been spent in a better way. Although when they realized there was no censure, they warmed up to the medium, but some still claimed TV FSO to be the board's propaganda tool with the journalism style reminiscent of that

in communist TV news. 15-minute-long programs were three times a week (Mondays, Wednesdays and Fridays) received in 100 locations in Żerań, reaching over 80% of the staff. Programs were broadcasted during breakfast and lunch breaks, for the first and second shift, respectively. The programs' copies were distributed to the company's subsidiaries. There were information programs in Polish and English – 153 in 1996, 130 in 1997 and 141 in 1998. In 1997 there were produced also 20 promotional and training films.

### 2.3. External public relations

At the pre-merger stage public relations activities outside of the company were focused on creating positive image of FSO in the media. There were organized press conferences at the factory. 14 December 1995 took place a meeting when the board presented to journalists results of FSO's last four years, friendly articles were published on "FSO getting in a good shape", "writing out the company's debts", and about Polonez as the "most frequently used new car in Poland". Unfortunately they were accompanied by articles presenting the factory as a beneficiary of taxpayers' money [*Gazeta Wyborcza*, 1994] or a relic of communism [Matecki, 1995]. Truly speaking FSO existed owing to taxpayers' money, customs duty protection and strong trade unions. Threatening a strike, the unions would refuse any offer made by foreign car producers in fear of layoffs.

At that time FSO had to face a crisis created by TV commercial aired by PZU (Poland's largest insurance company), where a young married couple's car with the chrome-plated FSO logo broke down in the middle of nowhere. United Publishers, the agency in charge of the TV commercial, did not request FSO's consent to use the car or its trademark and in reply to FSO's letter, they suggested it was actually a reason to be proud in the fact TV audiences watched their product in the context of PZU insurance services. An article appeared in *Kalejdoskop* with a rhetorical question about the advertiser's choice to use an FSO car rather than a Ford, Opel, Volkswagen or Toyota [Rudy, 1995].

Media coverage of Daewoo was at that time rather poor. Serious change started in March 1995 when Daewoo was reported to be interested in purchasing the Car Factory in Lublin and signed a letter of intent [Gotata, Ogiejko, 2011]. A subsequent press conference attracted approximately one hundred domestic and foreign journalists. Within a fortnight after releasing the information about the letter of intent, the press team had a collection of 220 clippings from Polish and foreign newspapers and magazines. There were friendly headlines

like “*Daewoo winning through, FSO will survive*”, “*Billions are here to stay*” while the Financial Times emphasized that nearly two billion dollars in foreign investments in Poland equalled nearly half of all foreign direct investments made in the country in the previous five years [Financial Times, 1995].

In the same time *Gazeta Wyborcza* placed a skeptical article whose author harbored his suspicions of Daewoo’s offer [Kublik, 1995]. They also mentioned sales problems in the Korean market and Daewoo Motor’s non-existent income for five years allegedly resulting from the trade costs of the company’s pro-export policy [*Gazeta Wyborcza*, 1995]. Bearing in mind the fact that *Gazeta Wyborcza* is co-owned by Cox, the American media concern, one could suspect the editors were more sympathetic towards investments made by General Motors at some point interested in the Warsaw-based factory (finally they build a factory in other Polish city – Gliwice).

Problems occurred not so long after, with Daewoo involvement in the corruption scandal in South Korea. The scandal contributed to the fall of the myth of Korean entrepreneur’s being flawless people running ethical businesses and working hard for their success. Despite negative press coverage Korean government’s consent to the investment in Poland was announced on 14 December 1995, during presentation of Kim Woo-choong’s book “The Korean Tiger. My Way to Success” at the Warsaw University [Gotata, Ogiejko, 2011].

At the “in the process” phase, it was imperative to build up a good image of Daewoo as a reliable business partner. Image campaigns were also aimed at showing the similarities between Korea and Poland. The message was reinforced in a series of TV commercial and press advertisings [Gotata, Ogiejko, 2011]:

- with intertwined images of issues appreciated in both nations: love of dancing, singing, hospitality and the urge to be free, last line said “Daewoo – it’s good to be with you”,
- referred to the tradition of drinking tea and a beverage popular in both countries,
- showing historical events of regaining independence in Poland and Korea placed within the yin and yang symbol as an evidence both nations had dramatic histories and both were heading for a rosy future owing to co-production of a modern automobile,
- featuring Polish and Korean children kicking an empty can as a reference to football, a sports discipline popular in both countries showing the Polish-Korean team was well trained and equipped in state-of-the-art machinery.

In 1996, Daewoo Motor Poland was the biggest advertiser in national newspapers, with the largest number of commercials placed in that year in *Gazeta Wyborcza*. Good relations with journalists became crucial. PR Department was informing journalists on a regular basis. In 1996 there were organized twenty press conferences and at the end of the year the list of journalists regularly cooperating with the company reached a hundred. In the next two years, the number doubled. The executives saw media relations as a tool of great importance not only in the media-Daewoo dimension but also for promoting Korean economy i.e. during speeches at international conferences. There were organized trips of Polish journalists to Daewoo works in UK, France, Germany and Romania. The concern tried to show they had nothing to hide and were open to cooperation with the media [Gotata, Ogiejko, 2011].

One of the most spectacular ventures included a trip of Polish journalists to Korea. Over twenty representatives of the biggest press titles, TV and radio stations were offered an opportunity to visit the majority of Daewoo factories. Rumor had it that the trip to Korea was a response to a question repeatedly posed in the Polish press about the source of Daewoo's money for investments in Poland. For three days, journalists visited by helicopter 15 factories producing home appliances and consumer electronics, computers, arms, ships, car batteries and automobiles. As the trip's goal was to promote the economic strength of the Korean chaebol, the visit to the car factory was the shortest and was combined with an opportunity to find out about the company's products.

Journalists were also shown factories under construction like the factory built on an artificial island, that was supposed to be a proof the company had enough money for its investments and its engineering solutions was sufficiently advanced. Journalists also had an opportunity to watch Daewoo CEO "behind his desk", clad in overalls, inviting to McDonald's for a hamburger and handing everyone his new book<sup>1</sup>. He therefore reinforced the image of a modest person who has placed work at the centre of his life.

New obstacles appeared soon. The French "L'Auto Journal" informed about a conflict between Daewoo and banks which refused to finance Daewoo's automotive investments in Eastern Europe. Centrum Daewoo claimed this information to be a result of pure spite on the part of French journalists while Daewoo enjoyed a blameless reputation in banking circles. According to Tadeusz Soroka, the chief negotiator of the contract with Daewoo, it could have

<sup>1</sup> Kim Woo-Choong, *Etery street is paved with gold*, William Morrow and Company, Inc. New York 1992.

been a result of a letter European Commission submitted after its experts visited FSO-Daewoo factory before EU car producers with a question about threats this investment presented to West European car producers [Walewska, 1996].

In October 1997, Warsaw hosted for the first time the European premiere of three new Daewoo models: Lanos, Leganza and Nubira. New cars were positively received and *Gazeta Wyborcza* mentioned Daewoo made a new face. Commercials no longer presented the company but promoted its products. In advertising car models, Daewoo-FSO employed billboards whose style was similar and cohesive with the other commercials. According to Media Watch, Daewoo-FSO was among companies with the biggest expenditure on outdoor campaigns between January and September 1998 [Marketing Polska, 1998].

The promotion of Daewoo-FSO's image was largely affected by sponsoring activities targeted at charity events, culture and sport. In 1997, Daewoo-FSO helped the victims of the flood in the towns where Daewoo had its subsidiaries. The company earmarked Pin 100,000 for Nysa and Pin 300,000 for Opole to eliminate consequences of the disaster, supervise collecting furniture and home appliances as well as make vans available to transport the gifts.

Daewoo-FSO made a name for itself by purchasing shares and sponsoring *Sportowa Spółka Akcyjna Legia* (Legia Sports Joint Stock Company), later renamed *Legia-Daewoo*. The argument in favour of Daewoo's involvement in this sports discipline was the huge popularity of football in Poland. This type of sponsoring proved very helpful in supporting brand identification and promotion at home and abroad. Commercials placed in the football stadium and the Daewoo logo on the footballers' T-shirts were very visible during TV and press coverage of football matches. The teams' name: *Legia-Daewoo* repeated by TV sportscasters positively affected brand awareness among the stakeholders. However, not all football fans were happy about changing the name.

The Żerań-based factory made its contribution to the celebration of the 150th anniversary of Fryderyk Chopin's death (1999) by means of a documentary "*Oczarowanie Fryderyka*" ("Frederic's Enchantment") aired on Polish TV and co-produced by Daewoo-FSO. The company also supported financially the visit of Pope John Paul II to Poland in 1997 by dedicating 10 cars for the time of the Pope's visit.

Daewoo-FSO attended conferences and seminars organized by the Confederation of Polish Employers, the Association of Car Industry Employers, the Chamber of Commerce and Industry, the Polish Economic Chamber, the Polish Automobile Forum to name a few, thus manifesting its involvement in

social relations and propagating corporate social responsibility. In enhancing communication with the external stakeholders also the corporate website played a particularly important role. It was developed by the Information Department, and was launched in May 1998 in co-operation with Daewoo Communications.

The efforts paid back. Research conducted by INDICATOR Marketing Research Centre in late September and early October 1997 indicated poor awareness and recognition of Daewoo products. In a survey into spontaneous awareness of passenger car makers, the Polonez was ranked fifth, following its chief competitor Fiat. Daewoo as a brand was mentioned only by every tenth respondent (ranked 13<sup>th</sup>). Only 6,5% of the respondents declared a willingness to purchase Daewoo products against over 11% of respondents ready to buy Fiats [Piątkowska, 1999]. In the second half of the year Daewoo-FSO enjoyed 1050 press impressions and nearly 5,000 articles published in 32 national and regional newspapers, 19 automobile-related magazines and 18 national social, political and economic magazines [Gołata, Ogiejko, 2011].

### 3. AN ENTREPRENEUR AS A MAINSTAY OF POLISH FREE MARKET ECONOMY

Since the beginning of Poland's economic transformation in 1989, members of business circles have adopted a popular Russian saying, "the more silence around you, the further you go", which translates into "the less talked about you are, the more you can do". At one point in the transformation, businessmen would say: "big money likes calm, huge money likes silence". The habit of avoiding publicity and controlling information about oneself and one's companies does not result solely from image-related concerns. It is frequently related to the protection of business secrets or fiscal and political concerns.

During communism private sector was in Poland almost nonexistent, so the importance of image in business for Polish entrepreneurs was not so obvious. It is a fact positive image fosters contacts with business partners and enhances reliability and mutual trust in any type of negotiations what can be seen in the results of Edelman Trust Barometer [2009]. The research suggests that, both in the global and local dimensions, trust in the economy and in business people has been on the decline.

Literature on the subject suggests that the notion of image management is closely related to information management [Dobek-Ostrowska, 2009, p.251]. By carefully selecting information and the broadcast thereof by means of mass media, the public receives the right message, thus forging positive associations with a public persona. The creation of a public persona's image (instigated by

that person him/herself as well as by his/her co-workers) is a lengthy process [Rozwadowska, 2003, p.287]. The process necessitates engaging specialists in many areas including public relations, media, marketing, psychology, sociology, social communication, make-up artists and stylists.

### 3.1. Difficult beginnings

Jan Kulczyk made his first public impression in the early 1990s.<sup>2</sup> As an owner of a small automotive company which later became a robust automotive group, he was involved in two large transactions when the police and the Office for State Protection were purchasing three thousand Volkswagens. On top of that, the German car maker acquired Tarpan Agricultural Car Plant in Poznań. 1990 marked the establishment of Kulczyk Holding<sup>3</sup> (transformed three years later into a joint stock company) that has become the shareholder of the majority of business ventures authored by Jan Kulczyk, who became chairman of the supervisory board.

Jan Kulczyk presented himself as a person continuing family business traditions. His father Henryk had been among the first exporters of Polish food to the West. Together they established one of the first expatriate capital companies in Poland<sup>4</sup>. The reference to family history was aimed at highlighting the source of business as well as the provenance of his “first big money”. He often claimed that “the first million” had been a gift from his father. In the 1990’s his business activity was based upon five pillars: the food industry; finance; fuels and power; the car industry; and road building.

Later Kulczyk’s image was adversely affected by his involvement in PKN Orlen, Central Europe’s largest oil refiner. Soon after the Millennium, Kulczyk Holding started purchasing shares of PKN Orlen, until it finally had almost 5% shareholding. The detention of Andrzej Modrzejewski, the then president of PKN Orlen in February 2002 by the Office for State Protection, accompanied by a subsequent *Gazeta Wyborcza* interview with Wiesław Kaczmarek, a former minister of the State Treasury who disclosed details of the detention, led to the establishment of the Special Investigative Commission by the Polish Parliament.

The Commission documents were peppered with the name of Jan Kulczyk as an individual who had allegedly greatly influenced the developments in Orlen and

<sup>2</sup> He had started business activity before, establishing in the 1980s Interkulpol company and representing interests of German companies (Krupp and Rau). At the end of the decade, he became an official importer of Audi and Volkswagen.

<sup>3</sup> Initially 78% of interest belonged to GraDyna Kulczyk (the then wife of Jan Kulczyk) and the remaining 22% to a foundation of GraDyna and Jan Kulczyk registered in Vienna.

<sup>4</sup> In the 1970s, expatriate capital companies were the first institutionalized way of Poland’s economy opening to the West and to foreign investors.

co-participated in the process of decision making. The disclosure of information about Jan Kulczyk's meeting with Vladimir Alganov<sup>5</sup> (who in fact acted as a representative of the Russian power industry) had a great impact on Jan Kulczyk's public perception, even though the meeting was strictly business in nature.

Even though the Prosecutor's office had decided to discontinue the proceedings due to lack of evidence, the Orlen scandal to a large extent undermined the image of Jan Kulczyk, and the businessman gradually withdrew from investing in the oil refiner and limited his business presence in Poland to focus on investment projects in other countries. Not only did he curb his business activity in Poland but also disappeared from the media. Until that time, he had been receiving the most media coverage among Polish business people.

### 3.2. From local to global investor

At the time of the Parliamentary Commission for Orlen, followed by the Law and Order party<sup>6</sup> winning the elections, Jan Kulczyk was visiting Poland less and less frequently, managing his businesses from London. It is highly probable that the PR experts who had started working for Jan Kulczyk at that time advised "withdrawal from the limelight". For some public members and politicians, his decision to avoid the Commission and, later on, to leave Poland, proved that his business had not been entirely legal.

During the time of the Parliamentary Commission numerous mistakes were made in creating Jan Kulczyk's image. These errors were reflected in some of his announcements and reactions. He did well in managing his business but at the same time did very poorly in building up his image. Most probably, he did it single-handedly.

In 2008 after several years of absence from the media in Poland, Jan Kulczyk made a comeback with an entirely new image. First and foremost, he is no longer a local (Polish) entrepreneur but rather an international player on the mergers and acquisitions market. At the same time he now emphasizes that he is the only Polish entrepreneur enjoying an international career (success) and recognition in global business circles. The new image was built primarily for the sake of new business partners from abroad who would gain trust in this businessman from Central Europe.

<sup>5</sup> Media covered his relations with Russian intelligence. Contacts with V. Alganov and alleged espionage contributed to prime minister J. Oleksy's resignation in the mid-1990s.

<sup>6</sup> The "political climate" in 2005-2007 was not conducive to private business. On numerous occasions, the politicians would undermine the legality of assets owned by the wealthiest Poles.



A new approach to public relations and communication management in his company, Kulczyk Holding, started the process of image and reputation building of a global investor. These were structural as well as functional changes. From the structural standpoint, the new strategy consisted in appointing a dedicated department in charge of communication with the broadly defined environment. The department is headed by a person who is also a member of the Kulczyk Holding board. This relationship serves as the best proof of a dramatically different approach to public relations and social communication. This is in line with the recommendations of public relations theoreticians (including J. Grunig) and the rules applying to the majority of international corporations. In Poland, this type of solution is something out of the ordinary.

The public had to be informed and persuaded that Jan Kulczyk lived abroad because he was an international entrepreneur and that is why he was running business away from Poland. When he attended the Business Forum in Krynica in 2009, accompanied by huge media coverage, the public obtained a clear signal that the wealthiest Pole had not run away from Poland, was not accused of anything and – contrary to suggestions offered by some political circles – was not avoiding justice.

In 2007 Kulczyk Holding fulfilled the global ambitions of its investors and partners and a new company was formed, which ultimately took the name – Kulczyk Investment. The businessman's new, international image was needed and became determined primarily by:

- strategic industries and scale of investment,
- interest in the largest international companies,
- multi-national boards,
- companies operating in global financial centres,
- business partners,
- the company of world-famous politicians and royalty,
- world media coverage,
- donating money to charity,
- permanent residence as well as temporary residence,
- symbols of prestige.

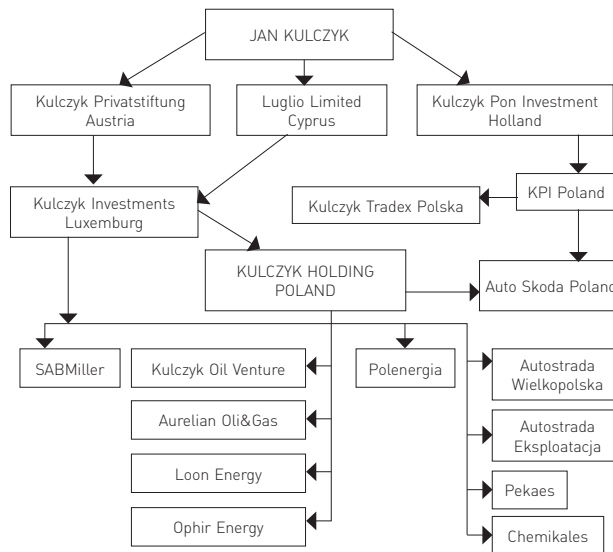
### 3.3. Investments in strategic industries

Jan Kulczyk's business operations have always focused on strategic industries: food, transport, energy, fuel. Therefore, his latest activities targeted at crude oil and natural gas drilling result from the former investments while

some of his related experiences are negative (involvement in PKN Orlen). Now he no longer hides his major goal to establish the first Polish private power group, a Polish national champion of European and global importance, operating in the realm of power, crude oil and natural gas [Dziennik.pl, 2010]. Undoubtedly, Kulczyk would like to be a big power player again, but this time operating on a larger scale [Solska, 2010].

The world's most powerful companies operate in raw materials excavation and processing. That is why Kulczyk Investments invested in Ophir Energy, one of the largest international oil and gas exploration and production companies in Africa and the fifth largest owner of oil fields on the continent. Kulczyk Investments is also a shareholder of Loon Energy Corporation, the company listed on the Toronto Stock Exchange which explores for crude oil in Columbia and Peru,. Another company belonging to the group is Kulczyk Oil Ventures (KOV), listed on the Warsaw Stock Exchange since May 2010, KOV has been granted exploration licences in Syria, Brunei and Ukraine. Kulczyk Investments also acquired a 7 % share in Aurelian Oli&Gas, a company exploring for natural gas deposits in Poland, Romania, Slovakia and Bulgaria. The crude oil business is, therefore, based upon several companies. Kulczyk himself refers to this type of activity as "risk diversification".

Figure 1. Jan Kulczyk's international and national business operations



Source: Forbes, 3/2010 p. 76

Besides investments in oil and gas, Jan Kulczyk was among the first Polish business people interested in the automotive industry. Right now all the biggest car producers operate in Poland under their own names. Kulczyk is the last private representative of Volkswagen, the global automotive mogul. This is how the public receives a very clear message: Jan Kulczyk enjoys the car maker's trust, representing our interests in the right way and there is no reason to change the situation.

The international nature of business ventures is affected not only by the industries but also the value of actual or planned investments. The cost of establishing a Polish energy power group may amount to PLN several billion, while the value of the new power plant in the Pomerania region is estimated at EUR 3 billion. The possible purchase of the Lotos oil refinery involves an investment exceeding PLN one billion. Constructing a power plant in Belarus will cost EUR one billion. The public receives a clear signal: Jan Kulczyk is only interested in very large investments worth hundreds of millions or even billions of zloty, euros or dollars.

### 3.4. Image of a world class businessman

Jan Kulczyk is a world class businessman. It can be told because of the way he operates his companies with international boards and offices located in global business centres. Polish media have already alluded to "Jan Kulczyk's dream team" consisting of Harvard University graduates from Poland, Americans, Australians, Englishmen and Indians [Nawacki, 2008]. In this team, the owner perceives himself as the leader and a "business strategist" [Węglewski, 2010]. He said in an interview: "it's been a long time since I tried to do everything" [The Wall Street Journal Poland, 2009]. As 2007 marked the beginning of Kulczyk Investments House (in 2008 the "House" part was dropped), an international investment company formed at the back of Kulczyk Holding and headquartered in Luxemburg. The company also established offices in other important economic centres in the world, including London and Dubai, as well less exotic locations in Warsaw and Kiev. The company's name still bears the name of its chief owner<sup>7</sup>.

Another dimension of Jan Kulczyk's international operations is his interest in the world's biggest companies. In 2009 he acquired a stake in SABMiller, the world's second largest brewer. Kulczyk swapped his 28% interest in

<sup>7</sup> As it was the case with Kulczyk Holding

*Kompania Piwowarska* for a 3.8% interest in SABMiller thus becoming one of the company's largest shareholders. This operation was ranked as the largest on the Polish M&A operations market in the year 2009, and the value of it was PLN 3,807 million (approximately EUR 1 billion). An investment banker, who manages a Polish branch of an international financial group, commented on the transaction in "*Rzeczpospolita*": "it has been the transaction of his lifetime.

Kulczyk's place of residence abroad offers him contacts with the world's business and political elite. One of his neighbours is Lakshmi Mittal, the Indian steel tycoon. As a shareholder of SABMiller, he could contact Tokio Sexwale, chairman of the supervisory board of Ophir Energy Company, one of the most affluent people in South Africa and friend of Nelson Mandela. Jan Kulczyk's friends include Al Gore, the former U.S. Vice President and a Nobel Peace Prize winner.

Members of international financial circles have always been competing in these areas; the size of the yacht or jet, the residential address are of great importance. For a global investor and player on international financial markets it is an obvious necessity to have at his disposal effective means of transportation. For Jan Kulczyk it is his own intercontinental jet Gulfstream 550 worth USD 50 million, which allows him to meet for business lunch at London, and attend a dinner in New York the same day. Both the jet as well as the luxurious 80 meter long yacht Phenixs, valued USD 80 million, with a 30-person crew on board, draw the attention of the media. However Kulczyk describes both luxurious "gadgets" as a useful "working tools" (*Rzeczpospolita*, November 5, 2010). Media reports on his property located at the prestigious places around the world like Sardinia, Monaco, St. Moritz, Miami, London, and Warsaw give additional "flavour" to his image of a global, successful investor.

The international aspect of his image brings another image-related benefit: much more frequently than in the past, Jan Kulczyk is quoted in the world's opinion forming business press, including the Financial Times (FT) in London. Kulczyk told the FT that he intended to be the largest private player in the power sector in Central Europe. In January 2010, the newspaper placed Jan Kulczyk among fifty top business leaders in developing countries [Financial Times, 6 Jan. 2010]. He has had impressive coverage in world-class media like CNN, the Wall Street Journal and The Economist.

Jan Kulczyk does not focus solely on his own business. In 2008 he was elected Chairman of the Board of Directors of Green Cross International (GCI), an environmental organisation founded and managed for 15 years by Mikhail

Gorbachev. The Board's other members include the former Prime Ministers of Israel and Portugal. The organization's goal is to prevent environmental disasters and help people affected by them. GCI has lately cooperated closely with the UN. World media published a photograph of Ban Ki-moon, Secretary-General of the United Nations and Jan Kulczyk, the new chairman of the Board of Directors.

Determined to promote Central Europe's economic growth, Jan Kulczyk launched the initiative of Central & Eastern Europe Development, an initiative including ten states from Central and Eastern Europe, all members of the European Union. In the Charter he says: "I suggest establishing a think tank of initiatives promoting our region's achievements. It is my intention to initiate activities aimed at underpinning the process of transformation, the free market, privatisation, innovations and competitiveness" [Kulczyk, 2010]. The author is certain that the new members of the EU may be the European counterpart of BRIC (Brazil, Russia, India, China) and offers support for an annual report on the region's growth. This published report should trigger off a discussion on the economy in this part of Europe. The debate should attract representatives of the world's biggest banks, investment funds and corporations.

### 3.5. Back to the origins

Building up an international image does not contradict the increasingly positive perception of Jan Kulczyk in Poland. At present, in his public speeches he denies any relations with politics, one of the major culprits affecting his negative image. "Politics is not my cup of tea, at least not for five years", he repeated twice in an interview for *Rzeczpospolita* [Rzeczpospolita, 2010]. However, an analysis of media coverage reveals titles indicating his relations with politicians ("*Gazeta Wyborcza*": Grabarczyk striking a deal with Kulczyk)<sup>8</sup>, indispensable when running a business. His image will continue to be associated with politics because of his plans of constructing an electro power holding company, resulting from purchasing companies owned by the State Treasury.

In Autumn 2010 Kulczyk Investments made an offer to acquire shares in Enea electro-power state company, which the State Treasury offered for privatisation. Kulczyk's offer was supported by representatives of trade unions in Enea. The support for Kulczyk Investments' offer may, to a large extent,

<sup>8</sup> Cezary Grabarczyk – minister of infrastructure in D. Tusk's government. The article referred to signing a contract following negotiations of A2 Nowy Tomyśl – Świecko motorway.

reflect a negative attitude to foreign capital and an opinion that the power sector should be managed by Polish capital [Kaczyńska, 2010]. The unions' approval of Jan Kulczyk has been confirmed in a commentary published in "Businessman.pl", entitled "Miss „S" (Solidarity) has developed a liking for Jan" [Businessman.pl, 2010]. The potential investor won the unionists' hearts offering them guaranteed employment. Trade union leaders reminded the other employees that *Kompania Piwowarska*, purchased by Jan Kulczyk, has gradually increased headcount.

Undoubtedly, Jan Kulczyk is still perceived as a representative of the local capital. Several years ago, it would have been hard to imagine trade unions' support for him. He is also perceived as a Polish investor by businessmen associated in the Business Centre Club. In their announcement they said "[...] we are pleased to know that an independent Polish investor whose name we will not disclose will participate in the strategic privatisation of a big player on the power market. The establishment of the first Polish private power group is an important argument in favour of a free power market in Poland, especially in the context of consolidating state-owned companies". The text does not offer any name but it remains quite clear who is referred to in this letter. At that time, few businessmen managed to win the trust of trade unions, some politicians and business organizations.

## CONCLUSIONS

Politics and public relations played an important role in Daewoo Motor Company's takeover of the FSO. The privatization had a clearly political character: the government's goal was to find an investor to take over the factory and give a guarantee to retain the headcount. For Daewoo that was very active in attempting to enter the EU automobile market, when EU member states didn't approve of it and sell cars without custom duties the political dimension was important as well. Especially because it was clear in 1994 that Poland would become a member of the EU.

Poles have been generally against privatization defined as selling out national property since the beginning of the transformation. As a result public relations activities were aimed at making the employees and the public opinion sympathetic towards the privatization of FSO and a foreign partner. Informing was as much important as educating employees about the changes and business operations in market economy. Daewoo was portrayed as "the savior of FSO" and "the only partner interested in taking over the factory". Positive

image of Daewoo-FSO Motor created within three years upon the merger should be attributed to PR activities, intense promotion and marketing efforts. They strongly affected identification of the formerly unknown Daewoo brand. As a result, the company enjoyed growing shares in the Polish car market. The Polish government of that time was sure the FSO problem had been solved. It turned out, however, that Daewoo had “feet of clay” while a combination of bad decisions and bribery scandals put an end to the chaebol.

When looking at Polish business class in the past few years, we have witnessed a slow process of building up international trust and a new image of Polish businessmen with Jan Kulczyk as one of the top stars. In February 2010, *Rzeczpospolita* newspaper published a ranking of the one hundred most powerful Poles. The list included three Polish business representatives, of whom Jan Kulczyk was ranked highest (27<sup>th</sup>). Consistent employment of strategic communication and public relations tools has allowed for an evolution of the businessman’s image, and the building up of a reputation of a trustful partner in international deals. A different dimension of the business ventures (international rather than local), supported with new instruments of communicating with the global environment, has brought the desired result: Jan Kulczyk – a businessman from a country in Central Europe – is sufficiently trustworthy to become a partner in the largest business ventures in power generation, as well as in power and gas distribution and trading, consequently building his “energy – resources empire” [Gadomski, 2011]. While he manages the majority of his investments abroad, Jan Kulczyk is again considered the most powerful person in Polish business.

Now, after over twenty years since political and economic transformation in Poland started market has evolved and its mechanisms are more similar to this of western economies with some characteristics based on cultural and historical heritage. However most of specialists assume social costs of the change were high, undoubtedly privatization in board meaning of the word understood as introducing private factors into economy took place successfully. In Poland there are still companies owned by the state, but except some companies of public use they operate according to market rules. Multinational companies coexist with small and medium ones and many individual entrepreneurs run their businesses, sometimes even on the global scale. Everything was possible thanks to processes that have been taking place in the Polish economy since 1990s and the support of PR instruments.

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