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Rate of Profit as Management Objective in Municipal Companies

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Elżbieta Jędrych[1], Dariusz Klimek[2], Jolanta Zombirt [3]

Abstract:

Purpose: *This paper presents research findings on the rate of profit's centrality as a management objective and its role in municipal enterprises. The authors seek to ascertain how important the rate of profit is among other management objectives. The article also explores the potential positive and negative effects of the rate of profit as a management objective on management standards in municipal enterprises.*

Design/Methodology/Approach: *The study comprises a comprehensive analysis of founding bodies' resolutions that define their management objectives for 2017, 2020, and 2023 in 165 municipal enterprises, which represent more than 5% of all municipalities in Poland. It is important to note that since 2016, Polish local governments are legally obliged to establish management objectives for municipal enterprises. The study classified the objectives into four categories: tangible, economic, social, and other.*

Findings: *As an economic objective, the rate of profit continues to dominate management objectives in municipal enterprises (with the exception of two sectors), although the number of tangible goals has steadily increased. Among the various forms of the rate of profit, net income was most frequently (89%) specified as a primary goal. However, the 2016 requirement of management objectives has raised issues about the centrality of rate of profit.*

Practical Implications: *The 2016 requirement intensified discussions concerning the appropriateness of setting the rate of profit as the primary goal. It has been proposed that municipal enterprises should abandon the rate of profit as their central objective and instead adopt a balanced capital management approach in which the primary management objective should be achieving an equilibrium of the various forms of capital, leading to greater efficiency and effectiveness.*

Originality/Value: *This article offers an overview of the role and challenges associated with the rate of profit as a management goal. This article's particular context – municipal enterprises – makes it particularly relevant for Central and Eastern European countries in which this organizational form remains prevalent.*

[1]*Dr hab., Vistula University in Warsaw, Poland, ORCID: 0000-0002-8526-2776, e.jedrych@vistula.edu.pl;*

[2]*Dr, Politechnika Łódzka, Łódź, Polska, ORCID 0000-0003-3952-4533, dariusz.klimek@p.lodz.pl;*

[3]*Dr hab., Vistula University in Warsaw, Poland, ORCID: 0000-0002-9578-6776, j.zombirt@vistula.edu.pl;*

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1. Introduction

Profitability as the goal for business likely came into being with the rise of civilization and the growth of trade. Due to its broad applicability and comparatively easy calculus, over time the concept of profit spread throughout the banking system as well as emergent industries.

The rate of profit became a fundamental component of many accounting systems, making it possible to compute tax obligations in addition to evaluating the profitability of transactions. As capitalism developed, many business owners and managers started to view the rate of profit as a goal in and of itself rather than just one metric.

In academic studies, the rate of profit as a concept first evolved in the nascent field of economics. One of the first and most influential works of modern economics that extensively discussed the rate of profit was Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations*, first published in 1776 (Smith, 2015). Studies of the rate of profit as a business objective have remained a central theme in economic thought since Smith, becoming more developed and complex.

The 20th century saw the further formalization and scientization of management, defined by the scientific organization of labour which sought to boost productivity by enhancing worker efficiency. A strong emphasis was also placed on ways to maximize the rate of profit by boosting output and through cost-cutting measures.

As a concept, however, the rate of profit was adopted into management science from accounting with minimal modifications, and has been used as both an economic objective and a measure of economic health. This adoption has had significant implications for businesses.

This article is organized into three sections. Section one comprises a literature review, focusing on critiques of the rate of profit as the only goal. Section two presents the latest research findings. In this section, the authors address the question: Among myriad other management objectives, what is profit's role? The last section discusses whether centring the rate of profit as a management objective enhances or diminishes management quality in municipal enterprises.

2. Literature Review

2.1 The Evolution of the Rate of Profit as a Business Goal

In simple terms, the history of economic thought can be seen as the history of the enterprise and the centrality of profit. Since classical economics adopted profit maximization as the purpose of business, this approach has continued to evolve over the years (Schumpeter, 1934; Keynes, 1936; Tucker, 1960; Harris, 1988). Following the era of classical economics, researchers from various economic schools modified the concept of profit to create alternative objectives and measures (Kaldor, 1956; Pasinetti, 1960; Harris, 1981).

Generally, scholars argued that the profit-maximization approach proposed by classical economics is not always conducive to the growth of an enterprise (Day, 1983). What is more, it cannot guarantee that enterprises will adapt to constantly changing market conditions. For example, one common way to maximize the rate of profit is to reduce costs to improve efficiency.

However, some expenditures, such as those for investment and research, are crucial for a company's long-term growth. While these investments can increase costs in the short term, they usually have a positive impact on a firm's long-term success and competitiveness. Firms that do not incur development costs in order to grow and develop risk falling behind market changes, leading to their eventual downfall.[4]

In recent decades, numerous attempts have been made to substitute other metrics for the rate of profit. The most well-known attempts include Economic Value Added (EVA) and Internal Rate of Return (IRR) (Worthington, 2001; Ilic-Pupovac *et al.*, 2017; Daraban, 2017). While EVA remains a largely conceptual economic measure, IRR – which is based on the discount rate – has emerged globally as a common metric for evaluating the profitability of decisions, particularly investment decisions, though it has not been used to measure a company's overall economic health.

Starting in the 1980s and 1990s, the primary goal of business managements has been to maximize shareholder value (Porter, 1980; Jensen, 2010). In this context it is important to clarify that value (or shareholder wealth) should be understood as the maximization of equity value. There is an assumption that companies that maximize their stock value benefit society as a whole and help its members to prosper (Brigham and Houston, 2018).

According to Varian (1999), in uncertain markets, maximizing market capitalization makes sense. For the company's shareholders, the best scenario is when managers work to maximize the company's stock value.

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[4]*It is worth noting that the pursuit of development on its own is insufficient as a sole criterion to establish the objective of business operation and management.*

Accordingly, in nearly every economic context, maximizing market capitalization is a clear objective (Varian, 1999). In other words, a company's primary long-term goal should not be to achieve the highest economic metrics, such as maximizing profit as advocated by some economic theorists, but rather to maximize the financial benefits for its shareholders (Davies, 1997).[5]

The concept of Corporate Social Responsibility (CSR) introduced many new ideas into management, particularly in setting goals, but it is not a recent development. Its origins can be traced back to the 18th century, when social responsibility was more closely associated with the personal charitable activities of entrepreneurs than with firms themselves, and was rooted in the business community's charitable contributions.

The term "corporate social responsibility" gained purchase in the 20th century, with scholars at Harvard Business School exploring the subject systematically for the first time in the 1920s. In the 1950s, Howard Bowen presented a contemporary perspective on social responsibility (Bowen, 1953). By 1991, the Business Council for Sustainable Development, established by the International Chamber of Commerce (ICC), had developed the Business Charter for Sustainable Development that outlined 16 principles for environmental management systems.

Today, it is widely believed that shifts in general knowledge levels, worldviews, the development of democracy, and the fulfilment of basic societal needs among company stakeholders have contributed to refocusing corporate goals. Emphasis has moved beyond merely satisfying the owner's interests to addressing the needs of all the stakeholders within a firm’s immediate and wider environment.

Proponents of CSR argue that social responsibility can enhance a company’s reputation, resulting in increased profits (Eisingerich and Ghardwaj, 2011). A company with a strong CSR strategy is more effective at retaining valuable employees, motivating staff, and attracting young talent.

Furthermore, integrating environmental protection can reduce costs (e.g., for energy, water, and pollution fees) and improve crisis resilience, thus boosting shareholder trust (Galbreath, 2011; Armstrong and Green, 2013).

However, CSR is not without its critics. Opponents argue that companies should focus solely on profit generation and highlight potential conflicts of interest between social responsibility and business objectives where managerial decisions may prove subjective. In addition, some view corporate social responsibility as a cynical and insincere effort (Vance, 1975; Henderson, 2001; Dadson, 2017).

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[5] *A relatively new phenomenon in this context is the migration of value between individual companies and entire sectors.*

Despite numerous studies and varying interpretations of the rate of profit as a company's objective, the central challenge remains clearly defining what is meant by “the goal of a company”.

The question of what constitutes a company’s ultimate goal for its managers has long been a contentious issue in the literature. For over a century, economists and management researchers have debated this topic, and the discussion continues today (Hawley, 1900, 1908; Beckerath, 1936).

Whether so-called managerial theories, which were formulated some time ago and have faced widespread criticism, still hold practical significance in defining corporate goals remains uncertain. To varying extents, these theories focus on the rate of profit, particularly the theory that growth should be the company’s primary objective and the growth rate maximization model proposed by E.T. Penrose and R. Marris (Penrose, 1955; 1956; 1960; Marris, 1963).

2.2 Fundamental Limitations of the Rate of Profit as an Economic Metric in Contemporary Enterprises

The evolution of the approach to the rate of profit and corporate purpose is ongoing, but several key issues remain particularly contentious:

2.2.1 Ambiguity of Profit Definition and Interpretation

What the rate of profit truly represents about a company and how it should be interpreted remains uncertain. A company’s profitability can be explained in at least three different ways, depending on the interpreter and purpose:

- the rate of profit as a measure of economic health: The rate of profit is often seen to reflect a company's economic well-being. However, in numerous cases companies have used accounting practices, allowed under certain regulations, to report profits even when they were close to bankruptcy, eventually leading to insolvency. Thus, profitability statements need to be supplemented with details about financial liquidity and debt levels. Relying on profit figures alone can be misleading and may not accurately reflect a company’s true economic condition.

- Profit as evidence of managerial competence: It is important to recognize that external challenges or unfavorable market conditions may prevent even skilled and dedicated managers from achieving profitability. Conversely, companies with a strong market position and established infrastructure may generate profits with relatively minimal managerial effort.

- Profit as both an indicator of economic health and managerial competence: In light of these considerations, profit alone may not be a reliable indicator of a company's economic health or the competence of its management.

2.2.2 Resource Waste and Avoidance of Financial Decisions

Excessive focus on short-term financial results frequently comes at the expense of long-term benefits. The rate of profit is primarily a short-term metric, and in many countries, managers are evaluated on an annual or even quarterly basis. This incentivizes artificial profit maximization, often at the expense of future sustainability, leading to resource waste, including the mismanagement of human resources. Managers may overuse or underutilize resources and avoid investments that could yield long-term benefits. The situation is exacerbated by the fact that a significant portion of managerial compensation is tied to profitability.

2.2.3 Lack of Human and Social Capital in Financial Statements

Modern financial statements, which are based on historical cost accounting, fail to account for human, social, and, to some extent, market capital. Balance sheets rely on tangible, structural, and financial forms of capital, which means that metrics like Return on Equity (ROE) and Return on Assets (ROA) are seldom used. They do not consider forms of capital that significantly influence a company's present-day value and success.

The literature highlights how enhancing social capital increases inter-group solidarity and trust, which in turn facilitates negotiations, reduces costs, and promotes knowledge transfer (Hu and Randel, 2014; Lefebvre, 2016). Social capital acts as a binding agent that enables efficient and effective cooperation based on trust. Its practical value lies in capturing the value embedded in interpersonal relationships, leading to increased efficiency in the use of other forms of capital (human, material, and financial) (Inkpen and Tsang, 2005; Hollenbeck and Jamieson, 2015).

Because the conceptualization of profit as a metric and goal was established before these modern concepts were understood, and because enterprises were seen solely as the organized collection of material assets like buildings, machinery, and capital, this profit-centric perception persists today. Concrete assets form a firm's assets on its balance sheet, while intangible assets remain underrepresented. Some new forms of capital have been added in recent decades, but these values, such as licenses or software, are still considered structural capital components.

2.2.4 Overly Detailed Profit Calculus and Complex Accounting Regulations

In accounting, every euro must be meticulously documented and recorded. However, in management processes that often rely on estimation and intuition, especially under conditions of risk, such meticulous accuracy can prove distracting and even obstructive.

This issue is further complicated by the fact that numerous accounting regulations create opportunities for manipulation, leading to artificially inflated profit figures, particularly for tax reasons. These manipulated figures do not reflect the true condition of a company.

2.2.5 Controversy Over Maximizing Corporate Value

Maximizing corporate value (e.g., stock or share value) as a firm's primary responsibility is currently a major point of debate, particularly in value-based management. Increasing value may have both negative and positive effects, and there are concerns about this approach. For example, negative effects may occur, especially in public utility companies, which set prices based on planned costs. An increase in value often accompanies higher depreciation, a cost component. In practice, a large investment by a utility company may lead to immediate price hikes for consumers and businesses.

3. Research Methods and Materials

3.1 Research Methods

This study was conducted across 165 municipal enterprises engaged in water and wastewater management, thermal energy provision, municipal waste management, urban greenery maintenance, public transportation, and recreational services. The selection was motivated by the unique significance of the rate profit as both a metric and an objective within these organizations. This focus highlights issues addressed by several legislative acts, revealing inconsistencies between the operational goals of these enterprises and the role of the rate of profit as a measure of performance.

According to the 1996 Municipal Economy Act, municipal operations include tasks of a public utility nature, aimed at continuously meeting the collective needs of the population through the provision of universally accessible services (Ustawa z dnia 20 grudnia 1996, 1996). This framework suggests that the primary goal of these operations should be to enhance the quality of life for residents and local businesses.

The Act, however, does not address the rate of profit, which stands in contrast to this objective. It is important to note that municipal companies are also subject to the general provisions that govern commercial entities. The Commercial Companies Code does not distinguish between municipal companies and other firms operating in a fully competitive market (Ustawa z dnia 15 września 2000, 2000).

This is further supported by the Municipal Economy Act, which allows for municipal economy management through local government units, specifically in the form of municipal budgetary enterprises or commercial companies (Ustawa z dnia 20 grudnia 1996, 1996). Furthermore, municipal companies are not explicitly mentioned in various structural laws concerning local government units or in the Public Finance Act (Ustawa z dnia 27 sierpnia 2009, 2009).

The situation was further complicated by the 2016 Act on the Principles of Remuneration for Persons Managing Certain Companies (Ustawa z dnia 9 czerwca 2016, 2016). Article 4, Section 6 of this act outlines management goals for companies governed by its provisions, including municipal companies.

These goals may include increasing net profit, profit before interest, taxes, depreciation, or achieving a positive change in the growth rate of these results.

In this article, the authors examine the role of profitability across various management objectives, focusing on whether profit as a management goal enhances or diminishes management quality in municipal enterprises.

To explore this question, the study analysed resolutions issued by local government bodies in 2017, 2020, and 2023. These resolutions were accessed through online sources and contributions from participants in postgraduate programs for municipal company managers. One of the key challenges was to identify and categorize the goals outlined in these resolutions, whether they were economic, tangible, social, or of another nature.

Provided below are examples of management goals from 2017 and 2023 for one of the municipal companies studied.

Goals for 2017:
1. Achieving net profit from overall operations.
2. Aligning tariff rate changes with the planned real increase in wages within the economy.
3. Enhancing service accessibility by implementing the annual investment plan.
4. Improving service quality by meeting at least two of the following six criteria:
   - Compliance with water quality parameters as defined by the Minister of Health's regulations.
   - Compliance with municipal wastewater treatment standards according to the Minister of the Environment's regulations.
   - Implementation of customer facilitation measures.
   - Establishment of a service security system.
   - Reducing water supply interruptions by deploying an efficient backup water supply system.
   - Enhancing customer service standards.

Goals for 2023:
1. Ensuring the continuity of financing and maintaining the quality of core activities, including:
   - Timely settlement of public and legal obligations.
   - Timely payments to contractors (suppliers).
   - Timely payments to banks, leasing companies, and the Voivodeship Fund for Environmental Protection and Water Management in Łódź.
   - Providing adequate staffing in departments, service units, and emergency teams to ensure the effective and continuous operation of water supply and wastewater treatment systems.
   - Financial provision for emergency repairs and ongoing maintenance.

2. Increasing service accessibility through the implementation of the annual investment plan.

Additionally, the study examines how managers at municipal companies evaluate profit as a metric and objective. This assessment focuses on whether profit, as a measure and goal, supports effective management and contributes positively to the company's success.

3.2 Research Results

3.2.1 The Role of Economic Objectives Among Other Goals in Municipal Enterprises

The study included 165 municipal enterprises across seven distinct sectors. Currently, no published data exists on the number of municipal companies in which municipalities hold stakes. According to the most recent data available, at the end of 2015 municipalities held stakes in 2,597 companies (Kowalewska-Schilling, 2021). Assuming the number of municipal companies has not significantly changed in recent years, the study encompassed approximately 5.5% of these entities.

Between 2017 and 2023, the founding bodies—primarily municipal authorities—set management goals. Legislation mandating the specification of management goals by owners was enacted in 2016, making 2017 the first full calendar year covered by this law (Act, 2016). The number of goals decreased over time, from an average of five in 2017 to four in 2023 (Table 1).

This reduction has been attributed to several factors: municipalities gained experience in formulating goals more precisely; it became evident that there were difficulties accurately assessing the achievement of goals that were not clearly defined and measurable; and the degree of goal attainment was linked to the remuneration of board members.

No significant differences were observed among sectors regarding the number of goals; on average, companies had between four and six goals. However, substantial variations were present between individual companies, with the smallest number of management goals being two and the largest reaching eleven in one company.

Table 1. *Number of Management Goals from 2017 to 2023*

Sector	number of companies	2017		2020		2023	
		number of goals	%	number of goals	%	number of goals	%
Water and sewage	41	207	5.0	183	4.5	160	3.9
Thermal energy	29	138	4.8	124	4.3	118	4.1
Social housing	24	111	4.6	93	3.9	93	3.9
Public Transport	22	102	4.6	95	4.3	90	4.1
Municipal waste	20	95	4.8	91	4.6	75	3.8

Multi-sectoral	19	116	6.1	101	5.3	81	4.3
Recreation	10	53	5.3	55	5.5	43	4.3
Razem	165	822	5.0	742	4.5	660	4.0

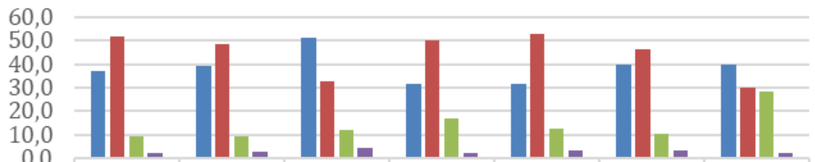
Source: *Own research results.*

Significant differences and clear trends are evident when analysing the types of goals (tangible, economic, social, and other) across sectors from 2017 to 2023 (see Figures 1-3). The most notable changes were:

- The percentage of tangible goals among the total number of goals increased each year, while the percentage of economic and social goals decreased.
- Economic goals (including profit as a goal) predominated in 2017 across all sectors except social housing and recreation. The most substantial change in the proportions between tangible and economic goals, favouring the former, occurred between 2017 and 2023 in sectors other than social housing and recreation. In these sectors, the percentage of economic goals remained unchanged, while the proportion of tangible goals increased at the expense of social goals.

The following three figures illustrate the percentage of goals in municipal companies for 2017, 2020, and 2023.

Figure 1. *Distribution of goals in municipal companies in 2017 (in %)*

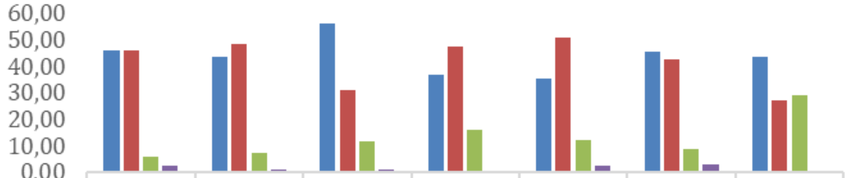


	Water and sewage	Thermal energy	Housing	Public transport	Municipal waste	Multi-sectoral	Recreation
tangible goals	37,2	39,1	51,4	31,4	31,6	39,7	39,6
economic goals	51,7	48,6	32,4	50,0	52,6	46,6	30,2
social goals	9,2	9,4	11,7	16,7	12,6	10,3	28,3
other goals	1,9	2,9	4,5	2,0	3,2	3,4	1,9

3.3 Profitability among Economic Goals in the Studied Municipal Companies

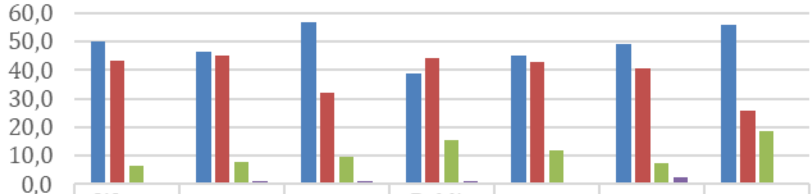
Economic goals serve various purposes and are calculated differently. In the companies under study, the identified economic goals can be divided into four groups: goals related to profit in various forms, goals aimed at improving the company's debt situation or financial liquidity, goals focused on cost reduction (restructuring) or increasing revenues, and economic goals difficult to categorize into the aforementioned groups.

Figure 2. *Distribution of goals in municipal companies in 2020 (in %)*



	Water and sewage	Thermal energy	Housing	Public transport	Municipal waste	Multi-sectoral	Recreation
tangible goals	45,90	43,55	55,91	36,84	35,16	45,54	43,64
economic goals	45,90	48,39	31,18	47,37	50,55	42,57	27,27
social goals	6,01	7,26	11,83	15,79	12,09	8,91	29,09
other goals	2,19	0,81	1,08	0,00	2,20	2,97	0,00

Figure 3. *Distribution of goals in municipal companies in 2023 (in %)*



	Water and sewage	Thermal energy	Housing	Public transport	Municipal waste	Multi-sectoral	Recreation
tangible goals	50,0	46,6	57,0	38,9	45,3	49,4	55,8
economic goals	43,1	44,9	32,3	44,4	42,7	40,7	25,6
social goals	6,3	7,6	9,7	15,6	12,0	7,4	18,6
other goals	0,6	0,8	1,1	1,1	0,0	2,5	0,0

Profitability can be categorized further into four types. The most commonly (89%) identified goal was EAT (Earnings After Taxes), which represents a company's profit after accounting for all costs and income taxes. About 5% of the economic goals were expressed as EBIT (Earnings Before Interest and Taxes), which is operating profit before deducting taxes and interest.

This type of profit was calculated in two ways: from an accounting perspective, it is sales minus operating costs; from a financial perspective, it is gross profit plus interest. Slightly less common than EBIT was EBITDA (4%) (Earnings Before Interest, Taxes, Depreciation, and Amortization), which shows profit before subtracting interest on debt, taxes, depreciation, and amortization of investments. Finally, in a few cases (less than 1%), gross profit (loss) from sales was reported, which is the difference between the total sales revenue achieved by the unit in the reporting period and the total costs directly associated with generating that revenue.

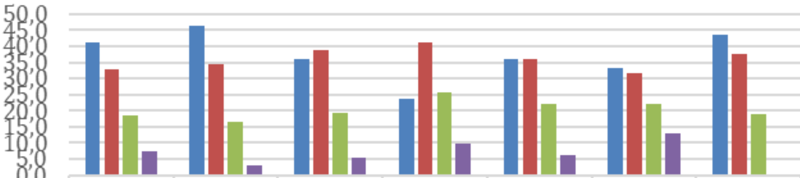
In addition to net profit being the most frequently cited type of profit, the study revealed the following trends:

- Profitability as an economic goal predominated in 2017 across various municipal company sectors except for public transportation and, to a lesser extent, social housing companies. In the case of public transportation, this is expected as in most Polish cities transport companies have had negative profitability for years and typically require city subsidies. Therefore, setting profitability as a goal is not justified. Some companies used the phrase "striving to achieve profit," which is less measurable and difficult to assess in terms of goal achievement.

- In subsequent years, the role of profitability as a goal diminished but remained one of the primary objectives for municipal companies. Meanwhile, the importance of goals related to debt reduction increased.

The following three figures illustrate the distribution of economic goals in municipal companies for 2017, 2020, and 2023.

Figure 4. *Distribution of economic goals in municipal companies in 2017 (in %)*



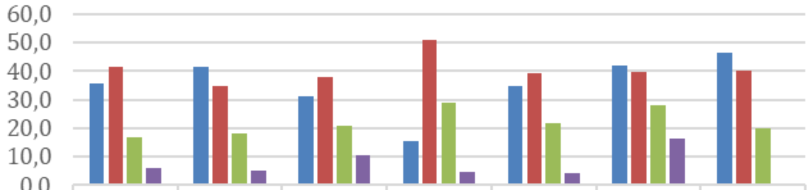
	Water and sewage	Thermal energy	Housing	Public transport	Municipal waste	Multi-sectoral	Recreation
profit	41,1	46,3	36,1	23,5	36,0	33,3	43,8
debt, liquidity	32,7	34,3	38,9	41,2	36,0	31,5	37,5
costs, revenue	18,7	16,4	19,4	25,5	22,0	22,2	18,8
other economic	7,5	3,0	5,6	9,8	6,0	13,0	0,0

When analysing the research results, it is crucial to recognize that in municipal companies, economic objectives, such as revenues and costs, do not carry the same weight as they do in typical enterprises that operate within a fully competitive market. For many municipal companies, revenues remain relatively stable year over year; for instance, water consumption does not exhibit significant growth.

3.4 Discussion

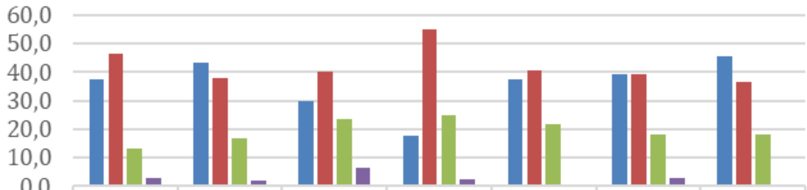
In the first part of this article, we highlighted the rate of profit's limitations as a business objective for enterprises in general. For municipal companies, using the rate of profit as a goal introduces additional challenges beyond those previously described. While the rate of profit as a measure and objective for typical commercial activities conducted by enterprises operating in a competitive market remains justified, it may raise serious concerns for companies operating in the public utility sector (serving residents and local businesses).

Figure 5. *Distribution of economic goals in municipal companies in 2020 (in %)*



	Water and sewage	Thermal energy	Housing	Public transport	Municipal waste	Multi-sectoral	Recreation
profit	35,7	41,7	31,0	15,6	34,8	41,9	46,7
debt, liqidity	41,7	35,0	37,9	51,1	39,1	39,5	40,0
costs, revenue	16,7	18,3	20,7	28,9	21,7	27,9	20,0
other economic	6,0	5,0	10,3	4,4	4,3	16,3	0,0

Figure 6. *Distribution of economic goals in municipal companies in 2023 (in %)*



	Water and sewage	Thermal energy	Housing	Public transport	Municipal waste	Multi-sectoral	Recreation
profit	37,7	43,4	30,0	17,5	37,5	39,4	45,5
debt, liqidity	46,4	37,7	40,0	55,0	40,6	39,4	36,4
costs, revenue	13,0	17,0	23,3	25,0	21,9	18,2	18,2
other economic	2,9	1,9	6,7	2,5	0,0	3,0	0,0

For individuals and companies that pay gas, electricity, heating, water and sewage, waste disposal, and public transportation bills, the rate of profit is significant. Profits for municipal companies influence the rising price of municipal services, while at the same time these companies seldom operate under conditions of full market competition (Klimek and Byjoch, 2015; Klimek, 2017).

The objectives can be sorted into the material, economic, and social. There are clear contradictions between these objectives, particularly evident in municipal companies. Before 2016 – that is, before the cited law came into effect – one of the fundamental problems in managing municipal companies was subordination to two laws: the Municipal Economy Act of 1996 (Act, 1996) and the Commercial Companies Code (Act, 2000). Before, most municipal company managers chose public utility, undertaking actions not necessarily related to positive profitability (e.g., building sewage systems or launching bus lines in sparsely populated areas), but which improved the quality of life for residents and working conditions for local businesses.

However, if the new management objectives included, for example, increasing revenues, reducing costs, and increasing profit, for a single municipal company these constitute contradictory objectives. Increasing revenues can be achieved in two ways, such as raising tariffs (prices), which will also increase profit, but is this socially desirable? The other way is to implement, for example, a water supply system in a low-density area.

This will increase revenues but also increase costs and reduce profits. The law thus introduced an additional problem into the management of municipal companies: they will have to choose between not only economic and social objectives as before, but also between economic objectives.

Among the management objectives in municipal companies, our study noted, there were no objectives related to environmental protection despite the fact that the research concerned companies with a significant impact on such issues (water, sewage, heating energy, communication, municipal waste).

Nevertheless, while no environmental objectives are stated explicitly among the management goals, in more detailed documents, such as material and financial plans these companies are required to prepare, or feasibility studies for investment projects, environmental aspects are of key importance, even before criteria such as the rate of profit.

A small percentage of social objectives in management goals are also devoted to "conducting personnel policy" or "creating a positive company image." However, in terms of the latter goal, it is not entirely clear whether its nature is more social or public relations. As such, perhaps a separate category of objectives should be created.

There appears to be a fairly simple explanation for this state of affairs: In the case of social objectives, the practical problem of their absence results from their formulation in Article 4 of the cited law, i.e., the requirement to use measurable criteria for implementation and settlement (Act, 2016).

Essentially, after 2017, everyone (authorities, supervisory boards, managers) had a problem formulating criteria to assess both social objectives and the principles of their measurement. However, it may be that managers do not treat social objectives as equal to material-investment, financial, or marketing objectives.

4. Conclusions

Research findings clearly show that the rate of profit remains a primary management objective for municipal companies, despite a recent shift towards more material goals. However, prioritizing profit in municipal companies not only fails to address general profit-related challenges but often worsens them.

To counteract this issue, one effective approach is the implementation of equilibrium capital management. This method emphasizes balancing all forms of capital within an enterprise (Klimek, 2020; Klimek and Jędrych, 2021; Jędrych, Klimek, and Rzepka, 2021). Equilibrium capital management involves continuously striving to achieve one or more objectives while maintaining an optimal balance among the company's various forms of capital. The closer a company gets to its goals, the more effective it is. The faster managers can bring these capital forms to their optimal levels and maintain them there, the more efficient the company becomes.

Equilibrium capital management relies on metrics beyond the rate of profit—specifically, effectiveness and efficiency—and requires the inclusion of social objectives in operations. This is particularly true for social capital, which is considered equally important as other forms of capital in the management process (Jędrych and Klimek, 2018; Jędrych, Klimek, and Rzepka, 2022).

The main task of a company following this concept is to achieve strategic and operational objectives with the highest possible efficiency, understood as striving for equilibrium. In other words, while pursuing its goals, a company should aim for effectiveness in achieving these objectives and simultaneously strive to balance its various forms of capital—material, structural, financial, market, human, and social—thus maximizing efficiency.

The principles of effectiveness (achieving objectives) and efficiency (maintaining capital equilibrium) should guide every manager. When these principles are realized together, they lead to success and satisfaction, confirming the company's development. In practice, this means that both managerial actions and the company's economic condition should be assessed based on how well objectives are achieved (effectiveness) and how well capital forms are balanced (efficiency).

5. Limitations

The study's limitations were numerous and may affect the interpretation of the results and the generalizability of the conclusions.

First, when formulating conclusions, it is important to recognize that the structure of Polish municipal companies is not typical across all European countries, let alone globally. Characteristic of Central and Eastern European countries, in other regions it is more common to delegate municipal tasks to private enterprises. Additionally, not all countries with municipal companies have a mandatory requirement to establish management objectives.

Second, the methodology relied on a survey, which may introduce certain errors due to the subjective nature of the responses. Respondents might have provided answers that do not necessarily reflect reality. Another challenge was the inability to control for all the external variables that could influence respondents' answers.

Factors such as current social events, media influence, or personal experiences can introduce additional variables not directly related to the study's subject. Furthermore, the lack of a deeper qualitative analysis, which could complement the quantitative data, limited the ability to fully understand the respondents' contexts and motivations.

6. Conflicts of Interest

The authors declare no known competing financial interests or personal relationships that could influence the work reported in this paper.

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