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Finance and Accountancy for Sustainable Development – Sustainable Finance

edited by
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Introduction

The year 2013 marks 26 years since the publication of the final report by the United Nations World Commission on Environment entitled *Our Common Future* which indicated the need for full awareness in shaping relations between economic growth and care for both natural environment and human health. The most significant statement made by the Commission was the observation that “at the current level of civilization it is possible to achieve sustainable development [...] in which the needs of the present generation can be met without diminishing the chances of future generations for meeting them.”

In 2013 it has been 14 years since upgrading the sustainable development principle to the rank of a systemic and constitutional principle. It has been stated in the Polish Constitution that Poland ensures such environment protection in which the principle of sustainable development is taken into account.

In 2013 it has been 12 years since the EU sustainable development strategy was developed, the objective of which was to ensure in the EU “a positive, long-term vision of the society as wealthier and more equitable one and also promising cleaner, healthier and safer environment, the society which ensures better quality of life for us, our children and grandchildren.”

Following the above temporal determinants, the Department of Finance and Accounting at Wrocław University of Economics as well as the Department of Finance Management and the Department of Accounting at Nicolaus Copernicus University have taken up the initiative of organizing annual scientific conferences the leading motto of which is research on the impact exerted by the sustainable development paradigm on the theory of financial studies and finance management practice. The first conference of this series was held on 22 and 23 April 2013 in Karpacz. It gathered over 100 participants representing domestic and foreign academic circles and practitioners in the field of economics. The submitted papers were published in three Research Studies of Wrocław University of Economics – *Finance and Accountancy for Sustainable Development – Sustainable Finance, The Role of Public Sector Entities, Households and Enterprises in Creating and Supporting Sustainable Development, The Role of Institutions and Financial Market in the Perspective of Sustainable Development Goals and Principles.*

The hereby publication presents 19 articles in an English version listed in the alphabetical order. They discuss the following problems:

1. The role of entities representing public finance sector in creating and supporting sustainable development.

2. The role of financial institutions in the conditions of sustainable development.
3. Enterprise finance management in the conditions of sustainable development.

4. Financial market in the perspective of goals and principles of sustainable development.

The publication editors, on behalf of the authors and themselves, should like to express their gratitude for the reviewers of the articles for valuable remarks which made the publication a more perfect one.

Grażyna Borys, Małgorzata Solarz
CORPORATE SOCIAL RESPONSIBILITY
FROM THE ACCOUNTING PERSPECTIVE

Abstract: Universal and flexible nature of accounting allows for its focusing on Corporate Social Responsibility, which is the crucial component in the process of constructing company image and reputation. The consequence of Corporate Social Responsibility concept implementation are the invested outlays and the achieved results which, indirectly or directly, influence company assets and especially the invisible assets undisclosed in accounting system. Due to the fact that the existing accounting solutions are insufficient to cover social aspects, some entities prepare an integrated report which is aimed at simultaneous disclosure of economic, social and environmental information about an enterprise.

Keywords: Corporate Social Responsibility, accounting, invisible assets, integrated reporting.

1. Introduction

Accounting is subject to ongoing changes resulting from shareholders’ needs for the information about economic entity assets. Therefore, in the times of information and knowledge intensive economies the accounting practice is more and more often extended outside the framework of traditional solutions concentrated on material components. The attention of contemporary enterprises is focused on invisible assets (and their intellectual capital), which exert vital impact on enterprise market value and its market position. The problem of invisible assets becomes particularly important when an enterprise gets involved in socially responsible initiatives.

The significant barrier in obtaining information about invisible assets (and their intellectual capital) is the absence of established, for this purpose, theoretical accounting solutions and especially rules underlying the concept of invisible assets and their classification, valuation method and disclosure forms. For this reason

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1 The theory of shareholders is based on running a business by means of constructing lasting and transparent relations with all interested parties influencing company operations.

2 The characteristics of invisible assets are e.g.: non-material form, knowledge-based, not fully identifiable, unique in every enterprise, they represent the source of future profits, constitute a growing gap between an enterprise market value and its balance value. More in the study [Bąk 2011, p. 43].
invisible assets (and their intellectual capital) constitute one of the crucial research areas in accounting.

Accounting is inextricably related to enterprise operations and therefore all processes and activities occurring in its environment and influencing its assets constitute the area of interest for accounting. For this reason social oriented activities, performed by an enterprise, are also reflected in accounting and in particular influence, directly or indirectly, the components of assets disclosed and undisclosed in accounting system.

The objective of the paper is to emphasize the role of Corporate Social Responsibility from accounting perspective as one of vital concepts influencing enterprise approaches and decisions in the course of its operations and having impact on its assets. Owing to the fact that accounting “lives in and for an enterprise,” it seems well-founded to investigate mutual relations between the concept of Corporate Social Responsibility and the way the accounting system functions.

2. Accounting focused on social accounting

Accounting, as applied science, is characterized by both universality and flexibility. Therefore, it can be applied in different issues and problems related to company assets. Universality is understood as the ability of adapting to specific conditions of enterprise functioning, as well as the possibility of playing different functions and implementing various tasks. On the other hand, flexibility allows for applying accounting in every economic entity regardless of its size, ownership form, legal personality or organizational structure.

Accounting can be focused on certain activities and processes. Perhaps for this reason academic reference sources are abundant in adjectives specifying the scope and application of accounting. S. Sojak [2011] classified accounting by means of adjectives describing it, following different criteria (agent-oriented method and type of activities, information users, the scope of generated information, public space and colloquial language) and clarified the remarks regarding its adjective-specific references. The listed adjectives, describing accounting “from A to Z,” mainly prove different authors’ creative capacity, which mostly results from marketing activities aimed at encouraging learning accounting or from the ambition of inventing a new term. While analysing the problem of adjectives used to describe accounting, the term of “social responsibility accounting” may be referred to. It was created by T. Gabrusewicz who decided to use it as the synonym for “accounting considering the responsibility for social issues.” According to T. Gabrusewicz social responsibility accounting covers “measuring and publishing information regarding the impact of enterprise operations on the entire society” [Gabrusewicz 2010, p. 57]. This type of

3 In the author’s opinion these terms should not be used interchangeably from the perspective of theoretical discussion. The second term is correct.
accounting considers burdens and benefits (as well as their cost centres) for society resulting from enterprise activities in a value-specific and descriptive form. However, it has to be emphasized that an enterprise also achieves economies from the application of Corporate Social Responsibility in its operations, e.g. its reputation and financial results keep growing.

The term “social responsibility accounting” does not offer new theoretical solutions in accounting as a scientific discipline, but it is more of an indication for shareholders regarding the underlying area of interest in accounting. The measurement mentioned above and information publishing are more related to integrated reporting than accounting as such.

While analysing social aspects in accounting system it has to be observed that such accounting is based on fundamental accounting rules and true and fair view concept in particular, which advocates presenting actual and realisable picture of an enterprise for potential stakeholders. Compliance with this concept results in an enterprise perception as a credible and trustworthy entity.

If the idea of Corporate Social Responsibility is supposed to function properly in an enterprise and accounting it is indispensable to follow certain ethical code of conduct at the level of both an enterprise and its particular employees. The elimination of reprehensible and dishonest attitudes should confirm business maturity of an enterprise and the understanding of the Corporate Social Responsibility essence. For this reason it is so important to verify all activities performed by persons responsible for accounting, which are not consistent with standards set forth in the code of business ethics.

In case of social responsibility accounting the changes occurring in company assets, influenced by social-oriented activities and combined with stakeholders’ needs, are of crucial importance. Corporate Social Responsibility is most frequently disclosed in social costs rather than in revenues, therefore the problem of financial result determination appears. The most important issues of social responsibility accounting are as follows: the identification and measurement of social costs, social revenues and commitments. Traditional accounting instruments, i.e. bookkeeping and financial reporting do not refer to social issues mainly because the majority of outlays and effects resulting from Corporate Social Responsibility implementation influence invisible assets undisclosed in accounting system.

To sum up the discussion on Corporate Social Responsibility in the perspective of accounting as a scientific discipline it can be stated that such accounting does not exist as a “separate notion in accounting space.” On the other hand, in academic reference sources the problem of Corporate Social Responsibility is analysed in the context of integrated reporting.

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4 The problem occurs if Corporate Social Responsibility accounting also refers to the environment protection. Academic reference sources offer such terms as ecological accounting, green accounting, environmental accounting. How to distinguish them in the discussed case? May be there are too many adjectives used to describe accounting which, in fact, is a unity.
In the author’s opinion “social responsibility accounting” is a mental shortcut and yet another adjective used to describe accounting. In this situation it is recommended to follow the opinion presented by M. Dobija who claims that one cannot use the noun “accounting” if the balance method is not applied, since in such a situation it is not possible to present “the capacity for periodic measurement of equity changes” [Sojak 2011, p. 268] and this is the situation we face here. It seems more accurate to use such formula as: accounting focused on Corporate Social Responsibility. Attention should also be paid to the fact that not all activities related to Corporate Social Responsibility can be presented in accounting system, since some of them are only supplementary for the information about an enterprise.

E. Burzym [2008, p. 83] emphasizes that accounting stimulates economic efficiency and ethical conduct because it constructs a documented basics for settlements regarding enterprise responsibility for effective and socio-economic rationality in management processes. Therefore, the relations between accounting, Corporate Social Responsibility and socially responsible investing seem vital. Accounting, as an information and control system, is capable of the Corporate Social Responsibility implementation in an enterprise by means of financial and managerial accounting instruments, business ethics principles and adequately prepared statements – reports (see [Pogodzińska-Mizdrak 2010, p. 179]).

3. Corporate Social Responsibility vs. enterprise invisible assets

Corporate Social Responsibility is the concept the main idea of which is based on voluntary and intentional taking social interest into account by an enterprise, with reference to different stakeholders, while attempting to achieve economic and financial objectives. More and more often enterprises relate to Corporate Social Responsibility problems, mainly owing to clients’ opinions which influence both a given enterprise reputation and its market position. Company boards/management try to undertake decisions which allow for distinguishing an enterprise from the crowd of its competitors. For this reason they, e.g., support local community or protect local environment.

The implementation of Corporate Social Responsibility, by an enterprise, influences invisible assets presentation and becomes the source of future profits. H. Itami and T.W. Roehl assign the following attributes to invisible assets as representing: the actual source of competitive power and advantage, the contribution to and the result of business activities and also resulting in various concurrent benefits [Itami, Roehl 1987, pp. 12, 13]. Table 1 illustrates the representative group of enterprise invisible assets and presents their typical attitudes under the influence of the concept of Corporate Social Responsibility.

The particular components of invisible assets are mutually complementary and depend on each other (e.g. a brand builds customer relations, company image and reputation), as well as construct company assets presented in accounting (e.g. finished products and sales revenues).
Particular components of invisible assets are subject to changes, as the result of Corporate Social Responsibility implemented in an enterprise, and co-create these assets at the same time.

Among numerous reasons supporting the idea of Corporate Social Responsibility implementation the following can be listed: ethical issues, obtaining the status of a commonly respected employer (e.g. good job market position allows for attracting best workers), gaining and maintaining strong market position, winning confidence of financial markets (e.g. increased interest of investors when good financial results are concurrent with social credibility), modern products and services, more comprehensive and richer company culture [Kamela-Sowińska 2009, pp. 217, 218].

Corporate Social Responsibility, as such, represents value for an enterprise, which is possible to accomplish mainly owing to invisible assets development as influencing enterprise market value.

<table>
<thead>
<tr>
<th>Invisible assets</th>
<th>Corporate Social Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand</td>
<td>Good quality product meets the needs of many stakeholders including environmental and social ones.</td>
</tr>
<tr>
<td>Customer relations</td>
<td>Clients as stakeholders expect: proper contacts with the company, good quality products, available information, personification of relations, improving social welfare and the quality of living standards.</td>
</tr>
<tr>
<td>Organizational culture</td>
<td>Facilitates the understanding of implemented strategies (including Corporate Social Responsibility strategy) and the basic operational goal, supports the continuity of processes occurring in an enterprise, provides standards of conduct, reduces uncertainty of attitudes, specifies promotion criteria, supports the incentive system.</td>
</tr>
<tr>
<td>Innovation</td>
<td>Results in: improved quality of manufactured products (which influences their brand), development of new products, cost reduction, better customer relations, natural environment protection, staff skills advancement.</td>
</tr>
<tr>
<td>Identity</td>
<td>Identity is constructed by: social and environmental activities performed by a company, developed strategies and objectives, occurring processes, customer relations, implemented innovations, reputation and workers.</td>
</tr>
<tr>
<td>Reputation</td>
<td>Company positive reputation is established by: enhanced acceptance and confidence of stakeholders, company positive image construction, organizational identity establishment, positive assessment in mass media, company/staff social involvement.</td>
</tr>
<tr>
<td>Image</td>
<td>Positive perception of an enterprise by stakeholders exerts favourable impact on company staff, customer relations and other stakeholders, product brand and organizational culture. Functioning in accordance with Corporate Social Responsibility strengthens enterprise image and its market position.</td>
</tr>
<tr>
<td>Workers</td>
<td>Corporate Social Responsibility implementation depends on skills and awareness of workers at different positions. Workers, as stakeholders, expect e.g. remuneration for their work, opening new jobs, trainings.</td>
</tr>
</tbody>
</table>

Source: author’s compilation based on [Paliwoda-Matiałońska 2009, pp. 94, 179, 183].
4. Integrated reporting vs. Corporate Social Responsibility

The analysis of academic reference sources and practical operations conducted by enterprises, following stakeholders’ needs, indicate the evolution in annual reports presenting extended information about an enterprise. Stakeholders’ needs influenced annual financial report supplementation since it is not satisfactory in its current form.

The transformations occurring in reporting can be divided into four aspects [Marcinkowska 2004, pp. 9, 10]: financial information is supplemented by non-financial information, numerical information is supported by descriptions, information disclosure is not only of mandatory but also of voluntary nature, information is both retrospective and prospective.

Currently the awareness of management boards regarding Corporate Social Responsibility significance keeps growing. Reports covering Corporate Social Responsibility issues most frequently emphasize ethical aspects of enterprise’s functioning and the impact on local, national and international population, respecting human rights in the area of human resources management and environmentally friendly activities.

The evolution in financial reporting towards integrated reporting offers opportunities for Corporate Social Responsibility presentation and its in-depth analysis. The most important existing institution dealing with the reconstruction of company reporting is the appointed in 2010 International Integrated Reporting Council (IIRC) the task of which is to develop rules for the purposes of integrated reporting. According to IIRC an integrated report should combine vital information regarding enterprise strategy, management, efficiency and perspectives in the manner which allows reflecting its functioning in an economic, social and environmental context [Kobiela-Pionnier 2012, pp. 77, 79].

The objective underlying the new reporting model is to integrate annual and social report into one document combining financial, environmental and social information about an enterprise, owing to which stakeholders can learn about an enterprise prospective capacity for generating value. Therefore an integrated report represents a single document containing both financial and non-financial information presented is the form illustrating how particular information mutually relate and influence each other [Eccles, Krzus 2010, p. 30].

The existing reporting solutions are insufficient [see Kobiela-Pionnier 2012, p. 82]. Although IAS 1 mentions the possibility of enterprises for preparing reports and statements about the influence of an entity on natural environment, it also

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5 These reports can be presented as a separate document attached to an annual financial report or can constitute its part as a separate file, or can be enclosed in the report on enterprise operations.

6 The publication of standard for integrated reporting, approved by IASB and G-20, is planned for 2013. It stands the chance of becoming a global standard starting from 2020.
indicates that they are excluded from the provisions of International Accounting Standards. Attention should be paid to Board’s Comments published, in 2010, by International Accounting Standards Board (IASB), referring to non-financial perspective of an entity functioning. It is observed, in the environment of professionals involved in integrated reporting, as an important component facilitating its development, even though it is not a mandatory standard.

In the meantime Global Reporting Initiative (GRI) standards represent the most extensively followed instructions in preparing social reports by companies while awaiting an integrated reporting standard. GRI organization developed and provided, via its website, an integrated report base the disclosure of which contributes to the idea of social responsibility accounting dissemination.

The ongoing efforts undertaken by organizations and international bodies confirm the need for developing rules underlying the preparation of reports referring to Corporate Social Responsibility [see Krasodomska 2012, pp. 101, 102]. The expectations associated with integrated reporting are enormous and mainly refer to combining financial and non-financial data into one document meeting stakeholders’ information needs and reduce the difference between enterprise balance and market value. Additionally, negative opinions were expressed by stakeholders regarding the complicated system of International Financial Reporting Standards, accompanied by positive remarks regarding the idea of integrated reporting as an incentive for standards further development.

Integrated reporting may present a temporary solution for accounting regarding the disclosure of certain invisible assets. However, it is not free from dilemmas to be approached by enterprises individually. Problems may refer to the following issues: costs of reports preparation and publication, lack of measurable profits, opportunities for taking advantage of the disclosed information by the competition, the risk of responsibility before stakeholders, no generally accepted reporting standards, a large group of stakeholders and their different information needs, interdisciplinary knowledge about an enterprise to be presented by the accounting staff.

5. Conclusions

Corporate Social Responsibility is understood as the commitment of boards/managers to become involved in activities aimed at social welfare and environment protection while implementing economic goals of an enterprise. Earning the status of a socially responsible enterprise is possible as the result of informed decisions,

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7 In 1997 the Global Reporting Initiative (GRI) was established in the U.S., which defined social reporting as the practice for assessing enterprise performance regarding Corporate Social Responsibility, disclosing best practices and being accountable towards stakeholders [Kamela-Sowińska 2009, p. 220].

ethical conduct and invisible assets which, to a great extent, influence both value and position of and enterprise.

Is contemporary accounting prepared for such tasks? Unfortunately one cannot answer positively this question. It is true that crucial attributes of accounting, its universality and flexibility, allow for including certain Corporate Social Responsibility aspects in accounting, having also preserved its fundamental rules and functions. However, accounting in not capable of facing and disclosing all outlays and their social-specific effects, since their extensive part takes the form of invisible assets undisclosed in accounting. Therefore, recently, integrated reports have been recognized as important documents including financial and non-financial, economic and social, retrospective and prospective information. Ongoing efforts of international organizations and bodies focused on developing standards for the purposes of integrated reporting may result in further development of accounting as well as its theoretical and practical solutions in the future.

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Sojak S., Rachunkowość przymiotnikowa, Zeszyty Teoretyczne Rachunkowości 2011, t. 62 (118), Stowarzyszenie Księgowych w Polsce, Warszawa.
ODPOWIEDZIALNOŚĆ SPOŁECZNA PRZEDSIĘBIORSTW Z PERSPEKTYWY RACHUNKOWOŚCI

Streszczenie: Uniwersalność i elastyczność rachunkowości pozwalają na jej ukierunkowanie na odpowiedzialność społeczną przedsiębiorstwa, która stanowi istotny element w budowaniu wizerunku i reputacji firmy. Konsekwencją wdrożenia koncepcji odpowiedzialności społecznej w przedsiębiorstwie są ponoszone nakłady i osiągane efekty, które w sposób bezpośredni i/lub pośredni wpływają na składniki majątku przedsiębiorstwa, w szczególności na aktywa niewidzialne nieujawniane w systemie rachunkowości. Dotychczasowe rozwiązania rachunkowości są nie wystarczające, aby ująć aspekty społeczne, dlatego niektóre jednostki sporządzają raport zintegrowany, którego celem jest jednoczesne ujawnianie informacji ekonomicznej, społecznej i środowiskowej o przedsiębiorstwie.

Słowa kluczowe: społeczna odpowiedzialność przedsiębiorstw, rachunkowość, aktywa niewidzialne, raportowanie zintegrowane.
Abstract: During the third trading period (2013–2020), the EU ETS participants will not be assigned the transferable greenhouse gas (GHG) emission allowances but instead will have to – with some exceptions and deferments – buy them at auctions. The aim of this article is to define the concept of an auction, to specify the criteria that prompted selection of this method for allocating GHG emission allowances, with due regard to their strengths and weaknesses, and to identify the measures of success of the practical application of this method. For this purpose, a review of various definitions of an auction was conducted, followed by a brief comparative analysis of methods for the allocation of GHG emission allowances and a theoretical analysis of the efficiency and effectiveness of allowances auctioning, with various scenarios for the issuing process.

Keywords: auction, grandfathering, greenhouse gases, allocation, emission allowances.

1. Introduction

In practice, various types of auctions have been used since the ancient times. Nowadays the online environment allows for auction-based trading in almost any goods, both mass-produced and unique. Auctions perform all the universal functions of marketplace in an economy, namely:

– price-setting – they allow the determination of prices for the goods in question,
– allocation – they result in transfers of funds, ownership, etc.,
– integration – they create specific relationships in the market between producers, sellers, buyers and intermediaries,
– identification – auction results indicate the price equilibrium and supply-demand relationships and provide the basis for identification of market trends,
– business cycle barometer.

No wonder that they are more and more widely used to build the primary market for greenhouse gas (GHG) emission allowances trading under the EU ETS. This observation was the basis for the selection of auctions as the subject of this article. The author aims to define the concept of an auction, to specify the criteria that
prompted selection of this method for allocating emission allowances, and to identify
the measures of success of its practical application. The article consists of three parts
which consecutively deal with a review of meanings assigned to the auction concept,
the reasons for which the European Union has decided to use auctions to allocate
emission allowances, a review of the advantages and disadvantages of this method,
and finally with its success indicators.

2. The auction concept

Auction (from Latin auctio, -onis ‘an increasing sale, auction, public sale’ stemming
from augere ‘to increase’)\(^1\) is one of the oldest forms of exchange of goods and
services. The dictionary definition of the word is ‘a public sale in which its object is
sold to the entity offering to pay the highest price’ [Słownik wyrazów… 1971, p. 58].
The Polish Civil Code states that an auction, alongside a tender, is a method of
concluding a contract that is aimed at selecting a contractor making the best bid,
evaluated as such in accordance with the criteria set by the party interested [Ustawa
z dnia 23 kwietnia 1964…, Art. 70]. A contract shall be concluded by means of an
auction at the moment of knocking down a bid. A bid made in the course of the
tender shall cease to be binding when another bid is chosen or when the tender is
closed with no bid having been chosen, unless the terms of the tender have stipulated
otherwise. On the other hand, the concept of an auction has three different definitions
assigned in the professional literature. One definition states that an auction is a type
of institution, another one that it is a type of market, and in the third one it is a form
of market forces play.

Auction as an institution is interpreted to be a form of market organization,
considered the classical structure of a formal market model, whose attribute is
conduction of sale-purchase transactions:

- at a specific place,
- at a specific time,
- pursuant to the rules and practices set in specific regulations [Dziuba 2008,
p. 12].

From this perspective, an auction differs from other formal market models, and
especially from exchange trading and tendering. It differs from exchange trading
primarily in being applied also for non-standard and non-homogeneous goods that
must be viewed to determine their quality and value. Therefore, some goods are
presented at an auction for the potential buyers to inspect, mostly in the form of
samples or entire batches, called lots. The lack of standardization requirement makes
auctions practicable to sell both individual unique items (e.g. paintings, antiques,
porcelain, etc.) and mass products that are non-homogeneous in terms of quality
(e.g. coffee, tea, flowers, or animal furs). In addition, exchange trading is a form of

\(^1\) www.etymonline.com/index.php?term=auction&allowed_in_frame=0.
regulated market, with multiple sellers and multiple buyers – its main objective is to bring together at a single place and time the multiple sellers and buyers, while with an auction there is usually a single seller and multiple buyers. An auction also differs from the tendering procedure as a specific institution, as it does not include the negotiation component. As indicated by the Polish Public Procurement Law [Ustawa z dnia 29 stycznia 2004...], these components are built into the tendering mechanisms.

An “auction” may also refer to a specific, located market. In this meaning, the term may be used, for instance, with reference to an auction of a specific painting, conducted last month at a particular auction house [Kuśmierczyk 2010, p. 14].

Auction can also be treated “as a game, and its participants as players whose goal is achieving the best bid price (or ask price, with double-sided auctions) of an item” [Drabik 2010, p. 75]. In such situations, auction rules may be applied to exchange trading in commodities, such as energy trading at energy exchange floors, as well as to tenders where the organizer is able to control and valuate the quality of goods purchased. In particular, at a predetermined level of quality parameters, where the only selection criterion is price, the tender becomes a reverse auction (procurement auction) in which the winning participant is the one offering the lowest price.

In practice since the ancient times multiple auction types have been used as classified by various criteria, e.g. the auction object, objective, price determination rules, participant eligibility rules, etc. One of the “novel” items auctioned in Poland are the greenhouse gas emission allowances.

3. Premises of auctioning the GHG emission allowances

Allocation of emission allowances can be conducted using any of the three methods:

- output-based,
- grandfathering,
- auctioning.

The output-based method of allocation is based on the past or present production volumes, and allocation is proportional to emissions per unit of production. In a way, it amounts to subsidizing certain types of production, offering an incentive for a production increase, and is not directly aimed at achieving the emission reduction targets [Malik 2006, p. 86].

On the other hand, grandfathering involves free allocation of transferable allowances on the basis of existing emission levels. This used to be the primary method of allocating GHG emission allowances under the EU Emissions Trading Scheme (EU ETS) during the first and second trading periods. During the first trading period (2005–2007) auctions were allowed to allocate only up to 5% of the awarded total number of allowances [Dyrektywa Parlamentu Europejskiego i Rady 2003/87/WE 2003/87/EC...] and only up to 10% during the second period (2008–2012).

Allocation through auctioning involves selling emission allowances only periodically or years in advance to their actual use. During the third trading period...
(2013–2020), the EU ETS participants will be made to buy transferable allowances at auctions and will stop receiving them free of charge. The exceptions to this rule will be the energy-intensive industries heavily exposed to carbon leakage, other sectors (in accordance with the principle of phased transition away from free allocation of allowances) and the power engineering sector in some Member States eligible for the derogation [Dyrektywa Parlamentu Europejskiego i Rady 2009/29/WE...]. It is estimated that in the 2013–2020 period auctions will cover about 50% of transferable GHG emission allowances from stationary installations and ca. 18% of aviation allowances.

The basic premise of a gradual shift from grandfathering to auctioning in the allocation of transferable emission allowances under EU ETS are the negative experiences with the former method. Its use is associated with both legal risks and the risk of informational asymmetry. The legal risk arises from the lack of uniform standards of accounting for transferable emission allowances. Following a failed 2004 attempt to establish such standards (IFRIC 3, soon withdrawn), in 2008 the International Accounting Standards Board (IASB) launched a joint project with the US Financial Accounting Standards Board (FASB) to develop comprehensive guidelines on accounting for emission allowances [Lovell et al. 2010, p. 5]. In various EU countries they are recognized as property rights, moral rights or a form of license. This gives rise to problems with recognizing them in the balance sheet and the related taxation problems, especially in terms of income tax.

As already stated above, grandfathering is in its essence an administrative method (with some negotiation components) of allocating transferable emission allowances at the Community and national levels. From the theoretical point of view, a market price of emission allowances held by an entity should be close to the marginal cost of corresponding emission reduction. The point is that the EU and national administrations do not have sufficient information on the corporate cost of achieving target reductions of GHG emissions from stationary installations and aviation emissions and therefore are not prepared to take informed decisions about the size of transferable allowances pool which should be allocated across countries and sectors during individual trading periods. This case of informational asymmetry makes a fertile ground for allowances capture. This is a process of interaction between the regulator and the regulated, the latter trying to use their information superiority to influence the regulator’s choices in a manner favourable to their own interests, even if contrary to the public interest which in this case is to minimize the total cost of achieving GHG reduction targets for subsequent trading periods. This leads to serious errors in the EU and national supply policies for transferable allowances, resulting in a price decrease in the secondary market. Such low prices do not make a sufficient incentive to undertake reduction measures. Those were precisely the mistakes made in the first two trading periods of EU ETS. In addition, the administrative allocation of transferable allowances is not transparent and relatively expensive as it requires employing many experts from different EU countries.
4. Advantages and disadvantages of emission allowances auctioning

The scientific literature presents a number of advantages of auctioning transferable GHG emission allowances. The most obvious of these are the simplicity and general clarity of auctioning. Auctions are considered to be the most transparent mechanism for conducting commercial transactions.

Allocation of allowances by an auction facilitates implementation of the core principle of environmental policies in the European Union and in Poland – the “polluter pays” principle. It assumes that the cost of pollution emissions must be borne by the emitter and calculated into the price of their products/services. Where the allowances are distributed free of charge, this principle is violated.

Auctioning of transferable allowances promotes avoidance of such adverse consequences of no-cost distribution. The negative effects arise from:

– inefficient and uncompensated market signals, especially in the energy sector which is the largest emitter of GHG,
– possibility of obtaining an allocation exceeding the actual needs,
– problems arising from the allocations to both the emerging emitters and those being pushed out of the market [Ramseur 2010, p. 54].

Finally, allocation of tradable allowances by auctioning can potentially minimize the social cost of climate policies implementation. This is so because the auction proceeds may be used to significantly reduce the overall cost of the cap-and-trade system to the society. Under Article 10(3) of Directive 2009/29/EC individual Member States are free to determine how the revenues from auction sale of allowances will be used, save that at least 50% of the revenues should be earmarked for at least one of the nine goals set forth in the Directive: renewable sources of energy, carbon capture and storage (CCS), afforestation and CO$_2$ sequestration in forests, energy efficiency, avoidance of deforestation and increase in afforestation and reforestation in the developing countries, incentives to switch to low emission and public forms of transport, contributions to the Global Energy Efficiency and Renewable Energy Fund and the Adaptation Fund and covering the administration and management expenses of the EU ETS. The remaining sums may be used for any other purposes, productive or non-productive. For example, governments may use them to reduce the income tax on labour which would not only compensate the households for a rise in prices but also increase employment and enhance the country’s competitive advantage at international markets. They may also use the funds to reduce VAT or the excise duty on energy, which would ease household finances but the positive effects of such a move would be relatively small. Governments may also use the income from auctions for non-productive purposes – social transfers or investment subsidies – even if the latter all too often encourage investment in projects of doubtful viability.

On the other hand, a disadvantage of emission allowances auctioning is its susceptibility to market trend reversals. A downturn results in lower revenues from
auctions, undermining its aforementioned advantage. Another challenge to auctioning is levelling the ground for large, small and medium-sized businesses through free, fair and equal access to allowance auctions.

5. Success metrics for GHG emission allowances auctioning

The measures of success of any emission allowances auction are both its effectiveness and the size of income generated as a result. An auction is effective when the allowances are allocated to just those entities for which they have the largest economic value. Other auction attributes which may be considered its success metrics include:

- prices set at the equilibrium level. In any cost-effective system of emission allowance trading the prices should reflect or be very close to the marginal cost of emission reduction – i.e. the cost of reducing the last, most expensive ton, expressed in equivalent tons of carbon dioxide. An auction is considered effective if it aids determination of an allowance price at a level close to the marginal cost of reduction;
- transparency, integrity and money-laundering prevention. The auction rules should be available to all parties interested and should not favour any of the participants. They should determine the auction participant eligibility criteria, the method of deciding the number of auction sessions, the requirements on participant registration and identification, the method of determining the settlement price, the method of results announcement, the delivery terms for allowances auctioned, etc. All the auction processes should be constantly monitored. The monitoring entity should be appointed by a special procedure that allows selection of a candidate meeting the top professional and ethical standards and not suffering from a conflict of interests;
- effective protection against market manipulation. Regulations and other auction rules should discourage or prohibit any auction behaviour that would hinder auction efficiency, such as collusions on bid values which could artificially bring down the allowance price. It is important to prevent any purely speculative processes that have nothing to do with the objective of maintaining the allowance market liquidity;
- optimisation of transactional and administrative costs. Prohibitive costs may significantly reduce the auctioning mechanism profitability and put small and medium-sized enterprises at a disadvantage.

Obviously, the success of emission allowances auctioning depends on the choice of auction mechanism options: the auction format and method of determining the settlement price, the auction model, the auction organization system, the instruments securing proper conduct of the auction, the method of introducing non-competitive bids, etc. Some auction models may, e.g., generate a variety of administrative costs, favour generation of auction proceeds, or allow a high degree of purchase monopolization by the powerful players from the financial sector. For example, in
theory a discriminatory-price auction should yield better results in terms of maximizing the auction proceeds. But in reality the proceeds from a uniform-price auction may come close to or even exceed those from a discriminatory-price auction. The reasons for this are the phenomena of ‘winner’s curse’ and ‘bid shading’. The former occurs when the successful bidder acquires the tendered object at a price far exceeding those offered by the other bidders. He then runs the risk of a substantial loss when trying to resell on the secondary market. The latter phenomenon is manifested in the bidders’ reluctance to bid the actual value of the item tendered for fear of overpaying [Aukcje uprawnień..., p. 21]. Another example is related to the choice of an auction organization system. The organization system may rely on the existing exchange markets (climate, securities), platforms operating within a dealer system (primary participants model), or mandates for auction organization issued to public institutions or private companies. British experts state that the latter solution is relatively the most expensive and time-consuming. It can therefore be postulated that the choice of auction mechanism should be supported by in-depth analyses of various aspects of such mechanisms.

6. Conclusions

More than seven-years experience in the European Emissions Trading System and its primary market component provides a basis for reflection on the choice of allowances allocation method. The widespread use of grandfathering has led to serious flaws in the supply policies during the two initial trading periods that prevent the carbon market from generating a strong enough incentive to undertake any emission reduction projects due to depreciation of the emission allowances. For this reason, within the European Parliament there are intensive discussions on backloading – a partial withdrawal of allowances from the market. They redirect the attention of politicians and scientists towards a method of GHG emission allowances auctioning that is considered more effective both environmentally and economically. The selected problems related to this method seem indicative of the need for more in-depth research and an analysis on a variety of options for its practical application.

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**WYBRANE PROBLEMY AUKCJI UPRAWNIEŃ DO EMISJI GAZÓW CIEPLARNIANYCH**

**Streszczenie:** W trzecim okresie rozliczeniowym, obejmującym lata 2013–2020, uczestnicy EU ETS, zamiast otrzymywać uprawnienia zbywalne do emisji gazów cieplarnianych, będą zmuszeni do ich kupna na aukcjach, z pewnymi wyjątkami i odroczeniami. Celem artykułu jest zdefiniowanie pojęcia aukcji, wskazanie przesłanek wyboru tej metody do alokacji uprawnień do emisji GHGs, ze zwróceniem uwagi na ich wady i zalety, oraz określenie miar sukcesu jej zastosowania w praktyce. Aby osiągnąć te cele, dokonano przeglądu definicji aukcji, przeprowadzono krótką analizę porównawczą metod alokacji uprawnień do emisji gazów cieplarnianych oraz teoretyczną analizę skuteczności i efektywności aukcji GHGs, przy założeniu różnych opcji procesu emisyjnego.

**Słowa kluczowe:** aukcja, *grandfathering*, gazy cieplarniane, alokacja emisja uprawnień.
THE CONCEPT OF SUSTAINABLE DEVELOPMENT
IN TAX POLICY OF CITIES WITH COUNTY RIGHTS
REFERRING TO PROPERTY TAX IN POLAND

Abstract: The paper presents the analysis and evaluation of tax policy referring to cities with county rights from the perspective of sustainable development concept. This policy provides certain decisions in accordance with the discussed idea. They consist in applying tax exemptions and reduced tax rates with reference to property used for socially desirable goals and, to a lesser extent, for ecological purposes. In most cases it covers land and buildings used for economic activity purposes, which emphasizes the relations between economy and society, as well as natural environment. From among 66 cities with county rights non-statutory exemptions and tax rates differential, for social and ecological purposes, were applied in 37 units in 2013.

Keywords: sustainable development, local self-government, tax policy.

1. Introduction

Sustainable development, in accordance with one of the most frequently quoted definitions taken from the UNO report entitled Our Common Future (so-called Brundtland Report), published in 1987, “meets the needs of the present without compromising the ability of future generations to meet their own needs” [Report...1987]. The meaning underlying the idea of sustainable development is well explained by F. Piontek’s definition following which sustainable and lasting development refers to ensuring persistent improvement of contemporary and future generations’ life quality by establishing proper proportions between three types of capital: economic, human and natural [Piontek 2006, p. 284].

Therefore the essence of sustainable development is manifested by the desire to reconcile ecological goals (e.g. halting environment degradation and the elimination of its threats), economic reasons (meeting basic material needs of population by the application of techniques and technologies non-destructive for the environment), as well as social and humanitarian causes (e.g. safeguarding minimal social needs by eliminating hunger, misery and poverty, by providing health care, conditions for
Sustainable development in tax policy of cities with county rights

The principle of sustainable development was upgraded, in Poland, to the rank of constitutional principle. Article 5 of the Polish Constitution [Konstytucja... 1997] provides that “The Republic of Poland [...] shall ensure the protection of the natural environment pursuant to the principles of sustainable development.” This statement is of paramount significance for the implementation of such development concept at all management levels (national, regional and local). Among numerous instruments used in local economic policy the basic public sector income category should be listed, i.e. tax.

The objective of the paper is to evaluate the tax policy carried out by local authorities from the perspective of sustainable development. The analysis was limited, in its subject matter, to cities with county rights (city counties), i.e. units characterized by the most extensive income autonomy and focused on the issues referring to property tax as the most important source of local authorities’ revenues in respect of which they can exercise their power to tax.

2. The construction of property tax from the perspective of sustainable development concept

Tax sources of revenues, collected by local authorities, in spite of being entirely based on tax instrument implementation, do not present a homogeneous category. They differ, among others, in the scope of the so-called power to tax, i.e. possibilities used by local authorities to influence basic components of taxing technique, such as its: subject, object, tax base, tax rate, as well as tax exemptions and reductions. These powers result from the level of local authorities’ financial autonomy and also their capacity to execute tax policy.

Among the tax-specific sources of local policy financing it is only the share in taxes constituting State budget revenues1 and the so-called local taxes which are of particular significance. Local taxes represent the source of revenues at the lowest territorial self-government level, i.e. communes including cities with county rights. The power to tax, in relation to local taxes, is of partial nature, i.e. refers only to particular taxes and some of their construction components.

Property tax is the basic type of local tax. Therefore, the power to influence its construction has the most extensive impact on both the conducted tax policy, and its effectiveness. Property tax represents a classical wealth tax imposed on the basis of Local Tax and Charges Act [Ustawa z dnia 12 stycznia 1991...].

The statutory provisions, defining tax structure, present certain indications proving their reference to the idea of sustainable development. They occur mainly in

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1 This category of revenues is not associated with any component of the power to tax, since it is the responsibility of State central authorities.
the catalogue of statutory tax exemptions (Art. 7) which are of both objective and subjective nature (Table 1). They refer to all three aspects of sustainable development, i.e., social, ecological, and economic. An important power to tax takes the form of exercising other possibilities of tax exemptions, different from the statutory ones, introduced following commune council resolutions. They may be of purely objective nature.

Table 1. Statutory property tax exemption from the point of view of sustainable development

<table>
<thead>
<tr>
<th>Objective</th>
<th>Subjective</th>
</tr>
</thead>
<tbody>
<tr>
<td>statutory activities of an association among children and youth in relation to their education, upbringing, science and technology, physical culture and sport,</td>
<td>universities,</td>
</tr>
<tr>
<td>land and buildings individually listed in the register of historical monuments under the condition of their maintenance and conservation,</td>
<td>public and non-public organizational units covered by the system of education and the authorities running them, in relation to property used for educational activities,</td>
</tr>
<tr>
<td>land and buildings in the possession of registered museums,</td>
<td>entities running sheltered workshops,</td>
</tr>
<tr>
<td>land located in the areas covered by strict protection, active or landscape-specific in national parks and nature reserves,</td>
<td>scientific institutes and auxiliary scientific units of Polish Academy of Sciences,</td>
</tr>
<tr>
<td>dyke structures,</td>
<td>research institutes, excluding entities, subject to taxation, running economic activities,</td>
</tr>
<tr>
<td>land under dykes and land in the inter-dyke structures,</td>
<td>Polish Allotments Owners Association,</td>
</tr>
<tr>
<td>wasteland,</td>
<td>entrepreneurs having the status of research and development centre with reference to taxation subjects used for research and development activities.</td>
</tr>
<tr>
<td>utilised ecological areas,</td>
<td></td>
</tr>
<tr>
<td>wood land and brush land,</td>
<td></td>
</tr>
<tr>
<td>property used for conducting unpaid, statutory public benefit activities by non-profit.</td>
<td></td>
</tr>
</tbody>
</table>

Source: author’s compilation based on [Ustawa z dnia 12 stycznia 1991…].

The idea of sustainable development is also manifested in the statutory diversification of tax rates level. The principle underlying tax construction is based on the fact that tax rates, for particular taxed items, are decided by a commune council within the framework of annually valorised maximum statutory rates. The social aspect of development is indicated by low maximum tax rates for residential housing and buildings used for socially useful activities associated specifically with the provision of health care, as well as for performing paid statutory public benefit activities by public benefit organizations, whereas environmental aspect is manifested in the low property tax rate for land used for impounding reservoirs and water storage power stations.

Commune council may adopt, through a resolution, tax rates at a statutory level, or reduce them for different reasons, also including the idea of sustainable development. An important power to tax, exercised by a council in relation to tax rates defining, is the possibility of their diversification based on subjective criteria, referring to, e.g.:
Communal executive body powers, regarding its influence on tax revenues, result from the fact that a village Head or a Mayor (President) performs the function of tax authority with reference to certain local taxes. This authority, pursuant to the Tax Ordinance Act [Ustawa z dnia 29 sierpnia 1997…], is vested with certain competencies, consisting in, e.g.: taxpayer exemption from the obligation to pay tax, tax deferment or allowing for payment in instalments, tax arrears, or the due interest, cancellation of tax in full or in part. The implementation of such instruments is performed following the application submitted by a taxpayer, whereas the unspecific manner of defining reasons for their implementation, such as e.g. “an important interest of the taxpayer” or “public interest”, offers extensive autonomy in making specifically justified decisions.

It is difficult to answer the question to what extent the legislator, while determining, in the early 90s of the 20th century, the construction of property tax system, was taking into account, in a fully knowledgeable manner, the assumptions of the idea of sustainable development, still fledging at that time. The more extensive implementation of these assumptions should rather be traced in contemporary, current policy carried out by local authorities, within the framework of the granted power to tax consisting in possibilities for introducing, other than statutory, subject-specific tax exemptions, as well as tax rates reduction or differentiation. Owing to such powers, local taxes, apart from their purely fiscal function, are also capable of performing other functions, e.g. a stimulating one. An adequately oriented tax policy may, therefore, become the component of sustainable development implementation idea.

Numerous sustainable development programmes or strategies, adopted by local authorities, confirm that the concept itself is, indeed, being noticed. Therefore, a question arises to what extent territorial self-government units take advantage of tax system and thus by means of the carried out tax policy support its assumptions.

3. Tax policy analysis of cities with county rights from the perspective of sustainable development

Non-statutory property tax exemptions, referring to the implementation of sustainable development concept, were adopted in 2013 by as few as 20 city counties out of the entire number of 66 units having such status. The records of resolutions adopted by city councils in this respect are extensively diversified, both with regard to tax-

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2 The analysis of resolutions adopted by city councils of 66 cities with county rights, referring to property tax rates and exemptions as of 2013, constituted the basis of the information provided in this part of the paper.
exempt entity characteristics and the provisions underlying such exemptions, as well as procedural requirements. The hereby study does not focus on detailed analysis of these elements, but rather on identifying major areas or domains in which exemptions were applied from the perspective of sustainable development. They are presented in Table 2 with adequate cities assigned to them.

**Table 2. Areas of activity underlying property tax exemption in city counties in 2013**

<table>
<thead>
<tr>
<th>Type of activity</th>
<th>Cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recreation, leisure</td>
<td>Wrocław, Jelenia Góra, Legnica, Nowy Sącz, Bytom, Krosno, Mysłowice, Kalisz</td>
</tr>
<tr>
<td>Physical culture, sport</td>
<td>Wrocław, Jelenia Góra, Legnica, Nowy Sącz, Bytom, Mysłowice, Rybnik, Kalisz</td>
</tr>
<tr>
<td>Social aid, charity</td>
<td>Legnica, Zielona Góra, Krosno, Siemianowice Śląskie, Zabrze, Kalisz</td>
</tr>
<tr>
<td>Culture</td>
<td>Gdańsk, Siemianowice Śląskie, Zabrze, Kalisz</td>
</tr>
<tr>
<td>Education, upbringing</td>
<td>Zielona Góra</td>
</tr>
<tr>
<td>Cemeteries</td>
<td>Zielona Góra, Krosno, Gdańsk, Rybnik, Tychy, Kalisz, Wrocław</td>
</tr>
<tr>
<td>Old buildings (including historical monuments) – renovations, aesthetic value improvement</td>
<td>Legnica, Łódź, Tarnów, Chorzów, Gliwice, Katowice, Poznań</td>
</tr>
<tr>
<td>Activities of public benefit organizations (unpaid)</td>
<td>Siemianowice Śląskie</td>
</tr>
<tr>
<td>Healthcare</td>
<td>Tychy</td>
</tr>
<tr>
<td>Animal husbandry</td>
<td>Wrocław</td>
</tr>
</tbody>
</table>

Source: author’s compilation based on tax resolutions adopted by city councils.

The most important titles for the discussed tax exemptions, following city council resolutions, was using the property for recreation and leisure activities, as well as physical culture and sport. Such exemptions occurred in nine cities and referred to e.g.:

- land used for playgrounds and home gardens (Wrocław), golf courses (Jelenia Góra), city parks and garden type of playgrounds (Krosno), land under water reservoirs used for fishing (Bytom), sport stadiums (Wrocław) and others,
- buildings occupied by public swimming pool facilities (Wrocław, Jelenia Góra), bowling alleys, sport halls, tennis courts (Jelenia Góra), buildings supporting the functioning of stadiums (Wrocław) and others.

Old buildings represent another crucial area exempt from property tax under the condition, however, that they were renovated in a specified range (mainly facade and roof renovations), they were restored, revitalized, or their aesthetic value was upgraded in some other way (e.g. by light illumination). Some cities introduce, in such cases, the border year of building establishment, e.g. in Katowice, Gliwice and...
Chorzów the discussed exemption refers to buildings erected before 1945, in Poznań before 1965, whereas in Łódź before 1970. Sometimes this type of exemption refers only to buildings of specific purpose, e.g. in Legnica to residential buildings.

Charity and social aid focused activities, performed in a given building, also constitute the significant reason underlying the application of property tax exemption. In six cities such exemptions were introduced without any particular specification about the type of activities they refer to. Similarly, culture-specific activities were also very generally described, which constitutes tax exemption basis in case of four cities. Only the city council resolution in Gdańsk specifies that the exemption refers to buildings used for libraries and the associated land. In seven cities the exemption is related to land used for cemeteries, whereas in four of them (Zielona Góra, Krosno, Rybnik, Wrocław) also the cemetery buildings were covered by exemptions.

All listed types of activities, underlying property tax exemption application, constitute the component of social aspects referring to sustainable development concept. Its environmental orientation, however, can be noticed in exemptions applied by the city of Wrocław. They refer to land, buildings and constructions occupied for permanent exposition of animals and used for ensuring adequate living, care and breeding conditions of animals, for their protection and conducting research and development activities referring to breeding, reproduction and protection of endangered or threatened by extinction animal species, as well as the species not inhabiting natural environment.

Some sustainable development aspects are also observed in the policy carried out by local authorities regarding tax rates differentiation, i.e. resulting from different titles application for lower than standard rates in a particular city, having assumed that a standard rate can be lower than the maximum mandatory one. Such preferences refer to land, buildings or constructions and were applied in 25 cities. Table 3 illustrates the usage of land entitling to apply for preferential tax rates in particular cities.

The basic type of land usage, regarding which reduced tax rate can be applied, refers to sport, recreation and leisure facilities. For this reason land tax was reduced in nine cities. The highest level of preference scale was applied in Tychy where the reduced land tax rate was applied in relation to business activities connected with sport playing fields and represented 13.6% of the standard rate. Equally large reduction (by over 85%) was used in Kielce in case of land situated in the area of secondary protection level, within the protection zone of water intake station.

Much more significant differentiation of property usage occurs with reference to preferential taxing of buildings (Table 4). The particularly large number of preferences refers to buildings used for business activities. Cities support their tax policy with regard to all sorts of activity types, however, also in this case the dominating one is that related to sport, recreation and leisure. Other preferred forms of activities are as follows:
— retail trade (e.g. watches, jewellery, flowers, animals, souvenirs, crafts, devotional items, contemporary art pieces, and antiques) and services (e.g. footwear, watches, jewellery repairs, hospitality business, tourism, food and catering, photography, cultural services) situated in the city centre of Wałbrzych (so-called Inner City Support Area); the reduction scale, in this case, is the largest of all cities and amounts to 95%;
— hospitality services and holiday centres in Jelenia Góra and Gdańsk;
— disappearing occupational sectors and professions in Cracow and Nowy Sącz (e.g. shoemaking, tailoring, capmaking, stove fitting, stained class making, blacksmithing, art casting, goldsmithing, stuccowork, sculpture, philately and others).

Table 3. Land usage entitling for reduced property tax application in particular cities in 2013 (in PLN)

<table>
<thead>
<tr>
<th>City</th>
<th>Standard rate</th>
<th>Reduced rate</th>
<th>Land usage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Land used for conducting business activities (maximum rate – 0.88)</td>
</tr>
<tr>
<td>Chełm</td>
<td>0.75</td>
<td>0.45</td>
<td>Sport and recreation</td>
</tr>
<tr>
<td>Gliwice</td>
<td>0.78</td>
<td>0.39</td>
<td></td>
</tr>
<tr>
<td>Kraków</td>
<td>0.84</td>
<td>0.35</td>
<td>Preferred forms of business</td>
</tr>
<tr>
<td></td>
<td>0.84</td>
<td>0.26</td>
<td>Physical culture and sport</td>
</tr>
<tr>
<td>Sopot</td>
<td>0.88</td>
<td>0.26</td>
<td>Recreation and leisure (beaches)</td>
</tr>
<tr>
<td>Tychy</td>
<td>0.88</td>
<td>0.12</td>
<td>Sport (playing fields)</td>
</tr>
<tr>
<td>Kielce</td>
<td>0.76</td>
<td>0.38</td>
<td>Physical culture and sport</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Other types of land (maximum rate – 0.45)</td>
</tr>
<tr>
<td>Gliwice</td>
<td>0.36</td>
<td>0.05</td>
<td>Recreation (water reservoirs)</td>
</tr>
<tr>
<td>Włocławek</td>
<td>0.38</td>
<td>0.22</td>
<td>Activities (payable) of public benefit org.</td>
</tr>
<tr>
<td>Nowy Sącz</td>
<td>0.21</td>
<td>0.12</td>
<td>Investment related to urban development</td>
</tr>
<tr>
<td>Słupsk</td>
<td>0.37</td>
<td>0.21</td>
<td>Residential areas</td>
</tr>
<tr>
<td>Chorzów</td>
<td>0.45</td>
<td>0.11</td>
<td>Recreation and leisure</td>
</tr>
<tr>
<td>Rybnik</td>
<td>0.43</td>
<td>0.25</td>
<td></td>
</tr>
<tr>
<td>Tychy</td>
<td>0.40</td>
<td>0.12</td>
<td>Sport (playing fields)</td>
</tr>
<tr>
<td>Kielce</td>
<td>0.35</td>
<td>0.05</td>
<td>Water intake stations protection</td>
</tr>
</tbody>
</table>

Source: author’s compilation based on tax resolutions adopted by city councils.

As far as residential housing is concerned the possibility of tax rate reduction occurs only in Jelenia Góra under the condition that environmentally friendly heating is used (electric, gas, oil, wind and solar), and the tax rate is by over 35% lower than the standard one. The only city in which reduced tax rate was applied in relation to buildings used for rendering health care services is Krosno. In case of the remaining buildings preferential rates occur in nine cities and cover mainly activities performed...
by public benefit organizations, institutions focused on sport or recreation and also utility buildings used by natural persons.

Tax policy carried out by cities is also manifested in influencing tax rates referring to all sorts of constructions for which maximum tax rate amounts to 2% of their value. Reduced rates were applied in eight cities and they mainly referred to constructions related to water supply and sewage disposal, as well as sport and recreation oriented activities (Table 5).
Table 5. The usage of constructions entitling to reduced property tax rate application in particular cities in 2013 (as %)

<table>
<thead>
<tr>
<th>City</th>
<th>Standard rate</th>
<th>Reduced rate</th>
<th>Construction usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kraków</td>
<td>2</td>
<td>0.1</td>
<td>Sport (sport stadiums)</td>
</tr>
<tr>
<td>Rybnik</td>
<td>2</td>
<td>0.25</td>
<td>Sewage disposal</td>
</tr>
<tr>
<td>Krosno</td>
<td>2</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Sopot</td>
<td>2</td>
<td>1</td>
<td>Water supply and sewage disposal</td>
</tr>
<tr>
<td>Katowice</td>
<td>2</td>
<td>1.75</td>
<td></td>
</tr>
<tr>
<td>Chorzów</td>
<td>2</td>
<td>0.3</td>
<td>Recreation and leisure</td>
</tr>
<tr>
<td>Gliwice</td>
<td>2</td>
<td>1</td>
<td>Sport and recreation</td>
</tr>
<tr>
<td>Elbląg</td>
<td>2</td>
<td>0.1</td>
<td>Water supply</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>Sewage disposal</td>
</tr>
</tbody>
</table>

Source: author’s compilation based on tax resolutions adopted by city councils.

While analysing tax policy, carried out by cities with county rights, the discretionary instruments, within the powers of tax authority (city President) resulting from the Tax Ordinance Act, were not referred to. The application of such instruments is usually connected with a particular action plan to support particular areas of activities and therefore cannot constitute the basis for the assessment of tax policy followed by local authorities from the perspective of sustainable development idea implementation.

4. Conclusions

Summarizing the above presented analysis an opinion can be presented that the power to tax, executed by local authorities and therefore their capacity regarding the carried out tax policy, is significantly limited. Both, legislative and executive authorities do not have the power to exert direct impact on such components of property tax structure (as well as any other type of tax) as its subject, object or legal basis. All they can influence, however also to a limited extent, is adjusting tax rates and applying exemptions, reductions, remissions of tax arrears and deadlines deferment.

Having considered the presented definitions of sustainable development, certain decisions, in line with this concept, are noticeable in tax policy of city counties. They consist in the application of exemptions and reduced tax rates in relation to property used for socially desirable purposes, which results in population life quality improvement by means of satisfying human mental and physical needs in a more comprehensive way. To a lesser extent tax decisions of the analysed units refer to ecological aspects of sustainable development, however, it is visible in statutory
property tax exemptions. From among 66 cities with county rights, non-statutory tax exemptions and tax rates diversification, for social and ecological purposes, were applied by 37 units in 2013. It is worth noticing that the majority of such decisions referred to land and buildings used for running a business, which additionally emphasizes the relation between economy, society and natural environment resulting from sustainable development concept.

The observed relation between tax policy, implemented by local authorities, and the idea of sustainable development does not simultaneously mean that tax decisions support or contribute consciously or unconsciously to this concept realization. In accordance with taxation theory tax exemptions or lower tax rates can have a stimulating effect for particular activity areas covered by these instruments. The advantage of tax tools, as an incentive motivating towards particular activities, is their universality and enforcement, which along with following other tax principles (stability and flexibility) offers the possibility of exerting a long-term impact on an extensive range of entities and specific areas of activity.

However, it raises doubts whether in case of local taxes, including property tax, its stimulating function, indeed, plays any vital role. The existing empirical studies do not confirm interdependencies between the applied exemptions or reductions and local development level [Swianiewicz 2006, p. 27]. It results, firstly, from the limited power of taxation exercised by local authorities, and thus their impact on taxpayers’ business decisions is also low and, secondly, from the fact that local taxes constitute only a small portion of fiscal charges in force in Poland. This can be referred to as the basic disadvantage of tax policy used by territorial authorities in the process supporting sustainable development.

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KONCEPCJA ZRÓWNOWAŻONEGO ROZWOJU
W POLITYCE PODATKOWEJ MIAST NA PRAWACH POWIATU
W ZAKRESIE PODATKU OD NIERUCHOMOŚCI W POLSCE

Streszczenie: W artykule dokonano analizy i oceny polityki podatkowej miast na prawach powiatu z punktu widzenia koncepcji zrównoważonego rozwoju. W polityce tej można dostrzec określone decyzje zgodne z tą ideą. Polegają one na stosowaniu zwolnień i obniżonych stawek podatkowych w stosunku do nieruchomości wykorzystywanych na cele pożądane społecznie, a w mniejszym stopniu także na cele ekologiczne. W większości przypadków dotyczyło to gruntów i budynków związanych z prowadzeniem działalności gospodarczej, co podkreśla związek gospodarki ze społeczeństwem i środowiskiem naturalnym. Spośród 66 miast na prawach powiatu pozaustawowe zwolnienia i zróżnicowanie stawek w celach społecznych i ekologicznych w 2013 r. zastosowało 37 jednostek.

Słowa kluczowe: zrównoważony rozwój, samorząd terytorialny, polityka podatkowa.
Abstract: The purpose of this article is to analyse the concept of sustainable accounting and reporting in light of the principles of sustainable development theory. What is sustainability? Sometimes the term is used alternatively with the term Corporate Social Responsibility. The most widely accepted definition of sustainability that has emerged over time is the “triple-bottom-line” consideration of: 1) economic viability, 2) social responsibility, 3) environmental responsibility. Although environmental considerations are often the focus of attention, the triple-bottom-line definition of sustainability is a broader concept.

Keywords: accounting, sustainability accounting, sustainable development, financial reporting.

1. Introduction

More and more often accounting starts to pay attention not only to the measureable effects of economic activity, which may be codified and entered into the financial statements, but also those which are not measureable, such as ethics, responsibility and ecology. This opens broad perspectives for using the accounting instruments to effectively manage enterprises in accordance with the principles of sustainable development.

What is sustainability? Sometimes the term is used alternatively with the term Corporate Social Responsibility, the most widely accepted definition of sustainability that has emerged over time is the “triple-bottom-line” consideration of: 1) economic viability, 2) social responsibility, 3) environmental responsibility.

While environmental considerations are often the focus of attention, the triple-bottom-line definition of sustainability is a broad concept. In addition to the preservation of the physical environment and stewardship of natural resources, sustainability considers the economic and social context of doing business and also

1 Also known as social accounting, social and environmental accounting, corporate social responsibility reporting, corporate social responsibility reporting, or non-financial reporting [Tilt 2009].
encompasses the business systems, models and behaviours necessary for long-term value creation.

The purpose of this article is to analyse the concept of sustainable accounting and reporting in light of the principles of the sustainable development theory.

The author of this article used the research methods of induction and critical analysis.

2. Economy of sustainability development – introduction

The core of the most basic approaches to the understanding of economical phenomena has its roots in the 19th century. It was in the 19th century when Burke wrote that the source of human history is neither an abstract judgment suspended in a fictitious space nor the equally fictitious homo oeconomicus. A. Bastiat [2003] reveals to his readers the knowledge of the fact that every action, deed and right have their consequence and therefore they are not indifferent to the achievement of the goal selected by the economic unit. Deliberations on the rules of economy were presented by the moralists and representatives of classical economics in the context of achievements of civilisation: regulations, rules, moral standards, tradition, and customs. All these “unshaken” values, by their repeatability, make the world a predictable and safe place and relieve the individual from the pressure of making too many decisions as well as provide directions and act as guides in the world which at first glance seems so complicated and chaotic [Kiwak 2007, p. 211].

Classical economics, created in the 18th and 19th centuries was at that time the dominant economic science. Its main purpose was to explain why the prices of goods develop the way they do (value theory) and how those prices (including incomes) are distributed. The major developers of this school include: Adam Smith, David Ricardo, Jean Baptiste Say and John Stuart Mill [Rogall 2010, p. 55].

The classical theory was the starting point for neoclassical economics. It is not that simple however, to define the notion of neoclassical economics. For example J.M. Keynes believed all schools preceding his own to be classical. On the other hand, H. Rogall includes a large number of more recent fractions in liberalism among the classical concepts, explaining the supply-side economics with the fact that in the end, all of them represent the standpoint of radical market liberalism creating the common foundation for economic theory [Rogall 2010].

Modern economists believe that the social facts are not a simple sum of individual facts and have recently started to devote more time to the analysis of values which are the focal point of ethics. Redefining the neoclassical paradigm has broadened the research spectrum of economy. As a result of viewing economic activity through the viewpoint of ethics it became essential to develop new research methods and tools required for the analysis of values which are incorporated in the material sphere of life [Kiwak 2007, p. 211; Gabrusewicz 2010, ch. 1, 9, 10].
The conventional understanding of sustainable development, based on the “three pillars” model is flawed because it implies that trade-offs can always be made between environmental, social and economic dimensions of sustainability. In response to this, a distinction is often drawn between “strong” sustainability (where such trade-offs are not allowed or are restricted) and “weak” sustainability (where they are permissible). The concept of “critical natural capital” is also used to describe elements of the biosphere that cannot be traded off (e.g. critical ecosystems or species). However, in practice, development decisions made by governments, businesses and other actors allow trade-offs and put greatest emphasis on the economy above other dimensions of sustainability. This is a major reason why the environment continues to be degraded and development does not achieve desirable equity goals.

The three “pillars” cannot be treated as if they were equivalent. First, the economy is an institution that emerges from society: these are in many ways the same, the one a mechanism or set of rules created by society to mediate the exchange of economic goods or value. The environment is different, since it is not created by the society. Thinking about trade-offs we rarely acknowledge this. Second, the environment underpins both society and economy. The resources available on earth and the solar system effectively present a finite limit on human activity. Effective limits are often much more specific and framing, in that the capacity of the biosphere to absorb pollutants, provide resources and services is clearly limited in space and time. In many areas (e.g. warm shallow coastal waters adjacent to industrialised regions) that capacity is close to its limits [Adams 2006].

3. Sustainability accounting

The concept of sustainability was introduced in 1987 in a report commissioned by the United Nations – the Brundtland Report. Brundtland defined sustainability as: “development which meets the needs of the present without compromising the ability of future generations to meet their own needs” [http://worldsustainability.pbworks.com].

The concept of sustainability was originally proposed as environmental sustainability, and was concerned with the use of environmental resources in such a way not to deprive future generations of them. Thus, it has been very closely linked with environmental accounting. Business organizations have more recently adopted the term “sustainability” and it has become the basics of a great deal of corporate promotion and advertising. In business organizations, however, the concept has been transformed into the notion of “corporate sustainability” or “corporate social responsibility” and this term has become more closely linked with economic or financial sustainability [Dellaportas et al. 2005, p. 214; Gabrusewicz 2010, pp. 56–63].

Many companies have now adopted triple-bottom-line reporting, as they believe that it provides an opportunity to demonstrate to their stakeholders that they are

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2 More on this subject in [Gabrusewicz 2010, pp. 7–56; Samelak 2013, pp. 5–22].
introducing sustainable business practices. In many of the sustainability reports that are published, however, social performance is closely related to its economics effects. For example, benchmarks of reduced employee accidents are related to savings in insurance premiums of lost work days. The Mays Report [Corporate Sustainability… 2003], discussing sustainability, points out that transparency is an important aspect of sustainability, embedding the concepts internally in order to add shareholder value is the most important issue [Dellaportas et al. 2005, p. 215].

From the experience of foreign countries experience, sustainability accounting is based on extending the existing financial accounting framework. In the U.K., it is based on a combination of company law, accounting standards from regulatory bodies and the customs used by accounting professionals. These are drawn up together in the U.K. Generally Accepted Accounting Practice (or UK GAAP). Different countries have different GAAPs, based on their own legal and regulatory frameworks but they influence each other and share many core principles.

There is, however, a strong move towards global convergence of financial reporting standards. From 2005, all EU listed companies are required to comply with the International Financial Reporting Standards, as issued by the International Accounting Standards Board.

Although there are many users of the company accounts – such as tax authorities, regulators, employees, customers and suppliers – financial accounting is primarily designed for investors, to inform them of the company’s financial performance and allow them to make investment decisions. Therefore, accounting practice draws a narrow boundary around the company for financial reporting.

The boundary uses the concept of control, whether the organisation has the ability to:

1) deploy economic resources and,
2) benefit (or suffer) from their deployment.

If so, then the economic resources, and the benefits or costs which are associated with them, are included in the financial accounts. If not, the resources and the associated benefits or costs are not included.

Sustainability accounting extends the traditional accounting boundaries to take into account environment, social and economic costs (and benefits) that accrue to the full range of stakeholders. A distinction is therefore made between private costs and benefits which accrue directly to the organisation and societal or external costs and benefits that accrue to other stakeholders.3

As a result of reflections in this paper the working definition of sustainability accounting is: “the generation, analysis and use of monetarised environmental and

---

3 For example: Stress has impacts both inside an organisation, e.g. through productivity loss, and outside an organisation, e.g. the quality of life of the employee and family. The impact to the organisation is internalised as productivity loss and could be drawn out in a Social Financial Statement. The wider impacts on the individual and society are not internalised and so would appear in an account of external social costs.
socially related information in order to improve corporate environmental, social and economic performance.”

A more complete and technical name could be “Sustainability Financial Accounting,” to differentiate this approach (focused on monetarised data) from wider forms of sustainability reporting.

4. Selected trends in sustainability accounting

Due to the volume of this article, at this point, only selected trends in foreign literature will be presented.

If an organisation has a good system of financial accountability, its ability to sustain financial shocks will be readily foreseeable and measureable. From an internal perspective, accountability systems can be linked to appropriate internal monitoring of financial affairs, which ensures the provision of reliable accounting information necessary for responsible financial management [Sopher 1998, pp. 45–47]. It is generally agreed that the requirements for good internal management control include competent personnel, assignment of responsibility, division of work, separation of accountability from custodianship, adequate records and equipment, rotation of personnel, internal auditing and physical protection of assets [Anthony, Young 1994; Gaffikin 1993; Herzlinger, Nitterhouse 1994]. However, accountability expectations extend management control into areas of planning and budgeting, raising funds, allocating resources, record keeping, monitoring and evaluating, reporting and auditing [Elkin 1985, p. 13].

Thus, adequate financial accountability systems will enable entity leaders to decide in a timely manner, whether their organisation is likely to be vulnerable to financial shocks, and thus to anticipate the extent of the organisation’s financial sustainability [Ireland 1999, pp. 96–99].

Financial accounting traditionally records and presents the financially-related flows and stocks of an organisation in the form of the Profit and Loss Account and the Balance Sheet, respectively.

Sustainability accounting tries to provide information in three different dimensions – presented in Table 1.

Table 1. Multi-dimensional accounting – range

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Timing</td>
<td>Does it provide a snapshot in time of the state of the stock or does it show the flow of goods and services arising from the stock over a period?</td>
</tr>
<tr>
<td>2</td>
<td>Location of impact</td>
<td>Is it within the company’s financial reporting boundaries – internal – or outside the boundaries – external?</td>
</tr>
<tr>
<td>3</td>
<td>Type of impact</td>
<td>Is the impact environmental, social or economic?</td>
</tr>
</tbody>
</table>

Source: own, based on [The Sigma Guidelines… 2003, p. 10].
The environmental, social and economic elements are often thought of as the components of the “triple bottom line” of sustainability reporting which can be disaggregated into the Five Capitals Model in the following way:

Manufacturing  
Financial  
Human  
Social  
Natural  

\{

Economic  
Social  
Environmental \}

**Figure 1.** The 5 Capitals Model and the triple bottom line

Source: own, based on *The Sigma Guidelines… 2003, p. 10*.

Sustainability requires that attention is paid to all different economic, social and environmental systems (or all the Five Capitals) now and in the future. Sustainable development is likely to be a dynamic activity where different dimensions are working in synergy. At present most measures or indicators only address one part of the puzzle.

The importance of the need to integrate is matched by the difficulty in doing so. There have been some attempts, such as the Sustainability Assessment Model, Integration requires the unbundling of hard issues such as *The Sigma Guidelines… 2003, pp. 34, 35*:

- **boundaries and responsibilities** – where does an organisation’s responsibility end and other begin? How can we consider an organisation’s individual responsibility when it is participating in a socio-economic system which only rewards certain sorts of behaviour?

- **valuation methods**\(^4\) – **can the same judgements be applied to environmental and social valuation methods?**

- **adding up and across** – the conversion of social and environmental impacts into monetary values makes it possible to add up the impacts and trade them off against each other. This opens up the possibility of comparing 1 PLN/USD etc. worth of climate change damage with 1 PLN/USD etc. of reduced impact from waste or 1 PLN/USD etc. of contribution to the local economy;\(^5\)

- **accounting for what you can count** – an organisation may not be aware of its impacts, or not be able to count them. The strength of using a stakeholder engagement methodology is that the stakeholders can provide an organisation with information on an impact which otherwise might have been omitted.

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\(^4\) More in: [Gabrusewicz 2012].

\(^5\) These trade-offs may not make sense from the sustainability perspective of living off the revenue rather than degrading the capitals. This point about comparing 1 PLN/1USD etc. of environmental or social impact also applies to comparison between 1 PLN/USD etc. of impact between different years and between different companies.
Over the past few decades, community values have been undergoing incremental changes to reflect a growing concern for social and environmental issues, highlighted by the comments of the United Nations Conference in Stockholm [Declaration… 1972]. Since the United Nations statement in 1972, legal requirements for corporations to integrate social and environmental responsibility into normal business activities have been wide-ranging. In many cases, not only is a corporation now liable for its environmental and social activities and impacts, but by various regulatory requirements may also incorporate the personal liability of managers [Drever et al. 2007, p. 194].

In 1987, R. Gray, D. Owen and K. Munders [Gray et al. 1987, pp. 76, 77] defined social and environmental reporting as a process of communicating the social and environmental effects of organisations’ actions within society and to society at large. Sustainability has implications for intergenerational equity, and is often deemed more theoretical than practical for business firms, whereas corporate responsibility embraces governance issues. The former relates to social equality, whereas the latter is more concerned with transparency and ethics.

**Table 2.** Accounting information for externalities stakeholders

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Environmental</th>
<th>Social</th>
<th>Economic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>Environmental costs of benefits in the use and disposal of products</td>
<td>Ethical, social and health costs or benefits associated with the product</td>
<td>Customer surplus over and above the market place</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Environmental impacts associated with the production of purchased goods and services</td>
<td>Ethical, social and health costs or benefits associated with the production of purchased goods and services</td>
<td>Stimulation of economic growth through the supply chain</td>
</tr>
<tr>
<td>Employees</td>
<td>Environmental benefits or risks associated with the workplace</td>
<td>Workplace social costs (unpaid overtime) and benefits</td>
<td>Employment creation through economic multiplier effect</td>
</tr>
<tr>
<td>Community</td>
<td>Emissions, effluents and land, air and water waste (local, regional, national and international)</td>
<td>Community health impacts; wider social impacts of redundancy and plant closure; nuisance and disturbance</td>
<td>Urban and rural regeneration; infrastructure</td>
</tr>
<tr>
<td>Investors</td>
<td>Investor’s risk from poor corporate environmental reputation</td>
<td>Investor’s risk from poor corporate social and ethical reputation</td>
<td>Investor’s risk from poor corporate economic reputation</td>
</tr>
<tr>
<td>Public sector (PS)</td>
<td>Environmental benefits from the public sector investment of corporate taxes in environmental protection</td>
<td>Social benefits from PS investment of corporate taxes in health, education and social programmes</td>
<td>PS economic multiplier effects</td>
</tr>
</tbody>
</table>

Source: [Drever et al. 2007, p. 196].
The business community, the natural community and the social community are interconnected. Firms operate as a part of the society, and with its permission. The legitimacy theory suggests that society will penalise firms that fail to conform to community expectations and values [Lindblom 1994].

Commercial transactions infiltrate the daily lives of employees, lenders, shareholders and others. Their inputs are drawn up from natural resources, and the output of their activities may adversely affect our ecology, and, indirectly, society. Based on the premise of accountability or stewardship, stakeholders require information on the social costs and the economic, social with corporate activities.

In Table 2 examples of individual stakeholders’ costs and benefits which can give a contribution to the debate on the shape of financial reports in their area are presented.

There is no agreed way of defining the extent to which sustainability is being achieved in any policy programme. Sustainability and sustainable development are effectively ethical concepts, expressing desirable outcomes from economic and social decisions. The term “sustainable” is therefore applied loosely to policies to express this aspiration or to imply that the policy choice is “greener than it might otherwise be” (e.g. the idea of a “sustainable road building programme”). Everywhere the rhetoric of sustainable development is ignored in practical decisions. Often sustainable development ends up being development as usual, with a brief embarrassed genuflection towards the desirability of sustainability. The important matter of principle therefore becomes a victim of the desire to set targets and measure progress.

5. Conclusions

There is an increasing recognition that, in order for a market society to move toward sustainability, the pricing signals that influence behaviour must include the consequences of such behaviour. The mechanisms for internalising externalities – such as taxes and compliance costs – are becoming more popular as legitimate policy instruments for governments to set the context within which organisations innovate. The most prominent example of this is the mechanisms from the Kyoto protocol, including the proposed EU-wide carbon emissions trading schemes. In these circumstances, organisations which understand and can measure their externalities will have a competitive advantage. Sustainability accounting is one way to achieve this.

In order to adapt to the changes in the environment and to survive and develop, organisations need to implement sustainable and continuous development.

The concept of sustainable development assumes the application of synergy between the economic, social and ecological aspects. It shapes and creates conditions for development and the functioning of enterprises.
The measurement of the set goals is the basis for evaluation of the adherence to the concept of sustainable development on the organisation level. On an enterprise level, the sustainable development encounters difficulties with operationalisation. Despite the fact that there are numerous global, national, regional and even local indicators, there are no methods to evaluate the level of sustainable development. The article analyses the concept of a balanced accounting background theory of sustainable economic development.

The author tried to identify the most important areas of development accounting for completing the reporting of socially responsible companies. The realization of the main objective was possible through defining the concept of sustainability accounting, indication of the scope and directions of development (measurement and reporting).

This article is not exhaustive and is only a contribution for further research and discussion on the topic – especially in the field of sustainable ways of reporting.

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ZRÓWNOWAŻONA RACHUNKOWOŚĆ – DEFINICJA I TRENDY

Streszczenie: Celem niniejszego artykułu jest analiza koncepcji zrównoważonej rachunkowości i sprawozdzawczości w świetle teorii zrównoważonego rozwoju gospodarczego. Czym jest zrównoważony rozwój gospodarczy i jaką rolę odgrywa w nim rachunkowość? Czasami pojęcie „zrównoważony rozwój” używane jest zamienne z pojęciem społecznej odpowiedzialności biznesu. Najszerzej przyjęta definicja zrównoważonego rozwoju, jaka do tej pory się pojawiała w literaturze ekonomicznej, to koncepcja triple-bottom-line, którą pokrótce charakteryzują następujące pojęcia: 1) rentowność, 2) odpowiedzialność społeczna, 3) odpowiedzialność za środowisko. Choć względy środowiskowe najczystsze znajdują się w centrum uwagi wielu interesariuszy, definicja zrównoważonego rozwoju gospodarczego w triple-bottom-line jest znacznie szerszym pojęciem.

Słowa kluczowe: rachunkowość, zrównoważony rozwój, sprawozdawczość.
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THE SYSTEM OF COST ACCOUNT  
IN AGRICULTURAL ACCOUNTING

Abstract: Running agricultural accounts, and basic knowledge about costs, their recording and presentation allow for performing correct activities in the decision-making process at both operational and strategic levels. In the perspective of the need to keep the books in Poland by agricultural holdings both defining and implementing the adequate system of cost account in these units seem a current problem. The objective of the paper was therefore to present cost classification and to define cost account in agricultural accounting. Variants of cost accounting have also been presented with reference to the specific nature of agricultural activities. The basic research methods used by the author were the following ones: the method of literature references analysis and critical approach and formal methods (graphical and tabular description method).

Keywords: agricultural accounting, cost, cost structure, direct surplus, cost account.

1. Introduction

Agricultural accounting represents the typical sector-oriented accounting considering specific characteristics of agricultural activities.\(^1\) In general terms agricultural accounting can be defined as a particular system for collecting, recording and processing information and referring to an agricultural holding property status and financial position, as well as the result of the performed farming activities. Literature reference sources distinguish three basic objectives of the accounting run by agricultural holdings: fiscal, research focused and for the purposes of management. These objectives are determined by the types of agricultural holdings ownership and the financial and tax regulations in force. The accounting for management needs should offer, among others, cost information indispensable for the manager of an

\(^1\) It should be mentioned that the concept of agricultural activity in Polish legislation is present in several legal acts (e.g. the Act on the Taxation of Farm Income, the Act on Goods and Services Tax, the Act on Personal Income Tax, the Act on Corporate Income Tax, or the Act on Freedom of Economic Activity), however, the respective definition is missing in the Accounting Act.
agricultural holding to undertake economic decisions. The components of agricultural accounting take the form of: records, agricultural calculations, reporting and non-accounting cost calculation.

2. The concept and classification of costs

Every economic activity involves tangible assets, human labour or third party services. This, obviously, generates costs which determine revenues earned by an entity. These revenues, on the other hand, facilitate the continuation of business activities and the subsequent profit generation. There are many definitions of cost offered by academic reference source. All of them are quite consistent. In general, it can be stated that a cost, following its common understanding, means:

– intentional consumption of an economic entity assets,
– certain expenditure not reflecting the consumption (within the scope of an economic entity activities, e.g. fiscal charges),
– outflow of the assets sold.

The Accounting Act defines costs as the probable decreases of economic benefits of a reliably estimated value, which may arise during a reporting period in the form of decrease in the value of assets or increase in the value of liabilities and provisions that will result in a decrease of equity or an increase of the equity deficit in a manner other than through a withdrawal of funds by shareholders or owners.²

Therefore in order to measure cost the following conditions have to be met:

– valuation,
– production factors consumption,
– assigning to a period,
– intentional consumption (an effect occurrence).

Costs, depending on the needs (analysis, statistics, reporting, control or management), can be classified following different criteria (Table 1).

Running an agricultural activity, owing to its specific nature, requires incurring and grouping costs by their type. In accordance with the guidelines of Polish FADN³ agricultural accounting applies the system of costs classification including direct and indirect costs. Following the definition of accounting costs, FADN defines indirect costs as the expenses:

– which can be, beyond any doubt, included in a particular production activity,
– whose size is proportional to production scale,
– which have direct impact on production volume (values).

² Art. 3, par. 1, pt. 31 of the Act on the amendment to the Accounting Act [Ustawa z dnia 9 listopada 2000…].
³ FADN, i.e. Farm Accountancy Data Network. The legal basis of Polish FADN is the Act on collecting and use of accountancy data from agricultural farms [DzU z 2001 r. nr 3, poz. 20]. The Act came into force on the day of Poland’s accession to the EU, i.e. on May 1st, 2004.
Table 1. Cost classification criteria

<table>
<thead>
<tr>
<th>Division criterion</th>
<th>Positions of costs</th>
</tr>
</thead>
</table>
| 1. In profit and loss account | Costs of operating activities  
Other operating costs  
Financial costs |
| 2. Costs by type | Materials and energy consumption  
Depreciation  
Salaries  
Social security and other benefits  
Third party services  
Taxes and surcharges  
Other costs by type |
| 3. Costs by internal structure | Simple costs  
Complex costs |
| 4. Costs by operating activities | Costs of basic activities  
Costs of ancillary activities  
Costs of management  
Costs of sales |
| 5. Costs by the place of origin (activity phases) | Costs of purchasing phase  
Costs of production phase  
Costs of sales phase |
| 6. Costs by the level of dependence on production volume | Fixed costs  
Variable costs |
| 7. Costs by the method of relating them to manufactured products | Direct costs  
Indirect costs |
| 8. Costs by their relations to obtained revenues | Cost of revenues  
Cost and expenses which are non-deductible |
| 9. Costs by the choice of future policy option | Essential cost  
Negligible costs |
| 10. Costs by the possibility of influencing their taking or avoiding | Mature costs (sealed)  
Accrued costs (future) |
| 11. Costs by opportunities of their control | Controlled costs  
Uncontrollable costs |
| 12. Temporary nature of costs | Historical costs  
Running costs  
Future costs |


Among indirect costs the following can be listed:
- general economic costs (costs of energy, heating, fuel, lubricants, current renovations, maintenance, servicing, property and communication insurance),
- taxes,
- depreciation,
- costs of external factors (rent, leases, interests, hired labour).
The division of costs into direct and indirect is necessary in order to define direct surplus. It is the surplus of production value, resulting from a given agricultural activity, over the value of indirect costs. These costs structure differs depending on an agricultural holding size class (Fig. 1) and also on its agricultural type (Fig. 2).

**Figure 1.** Total cost structure by economic size classes of agricultural holdings in 2011
Source: author’s compilation based on [Goraj et al. 2012, p. 43].

Direct costs constitute the largest share of the cost structure in every economic class. They present the level ranging from 43% in very small agricultural holdings up to 57% in medium-large and large ones. Very large agricultural holdings feature the highest share of external factors. It amounts to 20% of total costs and represents the effect of hired labour used in large agricultural holdings.

The highest share of direct costs, in the total cost structure, refers to granivorous livestock farming (70%) and also features the smallest share of costs related to external factors. In case of permanent crops the share of depreciation in total costs is significant and presents the level of almost 40%.

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4 Direct surplus refers to the measure used for the assessment of an agricultural holding economic size in line with the European size unit (ESU). This measure is used in all European Union member states. Direct surpluses are calculated based on empirical data originating from the reporting system of agricultural holdings. Direct surpluses used for comparing production activities between different farms have to be calculated in line with the uniform rules in terms of production value and direct costs. It offers the possibility to perform due analyses of economical situation in agricultural holdings characterized by a similar potential and production line [Goraj et al. 2004, p. 26].
Therefore, proper costs aggregation, grouping and presentation not only deliver a lot of valuable information for the needs of external accounting, but mainly provide information for the control and management purposes. This observation confirms that the importance of cost account for every entity running a business is undisputable.

3. The concept of cost accounting

Cost account, apart from recording and reporting, represents one of the accounting components. It refers to costs registration in various recording systems, their settlement, calculation, analysis and planning, in order to control expenditure and make decisions about their future level. Academic reference sources offer different definitions of cost account. J. Matuszewicz defines cost account in terms of all activities aimed at identifying the level of living and objectified workload incurred in an enterprise in a given time and for a particular purpose [Matuszewicz 1994, p. 5]. A similar definition is offered by C. Drury. According to him cost account delivers information indispensible for preparing financial accounting reports referring to costs allocated in every product and service [Drury 1998, p. 34]. Cost account was presented from a broader perspective by E. Nowak who claims that the basic objective of contemporary cost account is to provide economic information for its users in order to assess the conducted business activities and undertake rational economic decisions [Nowak 2010, p. 13]. In general, it can be stated that the discussed cost account is a part of accounting information system. It represents the
collection of information about operating activities carried out by an entity and prepared in line with an approved model adjusted to the information needs of both internal and external information addresses. Its purpose is to deliver information referring to managerial decision-making processes and controlling these decisions implementation, as well as the information related to stock valuation and financial result measurement in accordance with accounting law provisions. Therefore cost account should ensure the following information for every entity [Kiziukiewicz (Ed.) 2002, pp. 95, 96]:

- costs measurement and valuation,
- the presentation (based on adequate documents) of procurement, production, sales processes flow,
- costs grouping in different cross-sections,
- information presentation about costs in the form of statements facilitating both interpretation and evaluation of costs formation.

Cost account should also carry out different functions, e.g. calculating, decision-making, controlling, analytical, fiscal or statistical.

4. Cost account in agricultural activities

Costs, at their planning and recording stage, constitute the basis for undertaking decisions in the course of an economic entity management process. Therefore, cost account represents an integral part of this process and its crucial objective is the rationalization of decision-making processes within the framework of an overall entity management processes. It is also in agriculture that cost account plays such a role. Cost account has already appeared in the 19th century, also in agricultural accounting, and has been widely used since. Two approaches have emerged in agricultural accounting with reference to cost account for the purposes of agricultural holdings: synthetic and analytical approach. The first of them refers to a farm, as a unit, within which numerous relations occur between particular departments, branches and types of activities, and owing to such interdependencies it is difficult to split costs correctly, mainly the indirect one, between the diversified activity types. On the other hand, analytical approach refers to an agricultural holding as the set of independent, from each other, manufacturing operations which generate both revenues and costs and in consequence the income obtained from every particular type of activity, as well as the total one, can be specified. Analytical accounting is also referred to as double-entry accounting or spreadsheet accounting. The division of costs into fixed and variable ones has become the breakthrough in cost account application. In the 50s of the 20th century this type of costs division was popularized in farming and especially in their calculation. Figure 3 illustrates the system of agricultural accounting.

5 More about synthetic and analytical accounting systems in: [Goraj et al. 2004, pp. 118–121].
Attention should be paid to the fact that in the spreadsheet system the variable cost account, allowing for direct surplus calculation, is included in the synthetic system. Only after the valuation of total internal turnover, generated from the goods of own production and the division of full costs into particular activities, qualifies accounting, according to R. Manteuffel, to be included in an analytical system [Kondraszuk 2010, p. 90].

The Accounting Act provides entities, also agricultural ones, with freedom regarding the choice of cost accounting type and the method of financial result calculation. It is quite common for agricultural entities to apply an extended and comprehensive cost accounting variant. Costs are first presented in the accounts of group 4 (costs by type) with their settlement on particular accounts of group 5 to follow (costs by activity type). Therefore the record of agricultural goods production costs, in an extended cost accounting variant, is performed in line with the following stages [Kiziukiewicz (Ed.) 2009, pp. 156–158]:

1) prime costs presentation on cost accounts by type based on source documentation;

2) settlement of costs by type referring to production on the accounts (synthetic and analytical):
   - “basic activity costs – plant production” or
   - “basic activity costs – livestock production”;

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6 Cost accounting only on group 5 accounts is also possible, however, in accordance with analytical approach an additional cost division by type should be applied.
3) settlement of overheads by type (in a given period) on the accounts:
   - “management costs”
   - “sales costs”
4) common production costs records (departmental costs) on the accounts:
   - “departmental costs – plant production”
   - “departmental costs – livestock production”
   by distinguishing positions referring to common costs of particular product
types/varieties;
5) periodic common costs settlement by cost drivers;
6) referring to the “accruals and deferred income” account, these costs which
   have been incurred in the current period, but related to future periods;
7) separating auxiliary activity costs in the records and their periodical settlement;
8) production costs transfer into the following accounts:
   - “finished products” – the acceptance of finished goods from production to storage
     at actual production cost,
   - “settlement of activity costs” – the acceptance of finished goods from production
     to storage at planned production cost,
   - “the cost of products sold” – disbursement of products not subject to storage at
     actual production cost,
   - “settlement of activity costs” – disbursement of products not subject to storage at
     planned production cost,
   - “production costs – X” – disbursement of products not subject to storage and
     constituting raw materials for production,
   - “other operating costs” – disbursement of products not subject to storage transferred
     free of charge immediately after their acquisition/pickup,
   - “management costs” – disbursement of products not subject to storage transferred
     for an enterprise general objectives and own needs immediately after their
     acquisition/pickup,
   - “extraordinary losses” – the occurrence of finished goods shortages or losses
     resulting from random events,
9) periodic determination and settlement of recorded price deviations for the
   products sold and these in stock transferred free of charge for the business own needs
   or lost as the result of random events.

At the end of reporting period, and having followed the adequate cost recording
procedure, the income earned as the result of business activities has to be calculated.
For this reason the mentioned above direct surplus is used and the income itself is
 calculated based on the following formula [Ziętek 2008 after Ziętara 2009, p. 307]:

\[
\text{production value} = \text{direct surplus without subsidies} = \text{gross value added from business operations}
\]

- direct costs
- direct effective costs
The system of cost account in agricultural accounting

– indirect cost estimate – depreciation
\[ = \text{net value added from business operations} \]
– cost of external factors
\[ = \text{income from business operations without subsidies} + \text{subsidies} \]
\[ = \text{income from business} \]

It is vital to keep in mind that indirect surplus is of the greatest importance in this case. The income earned, based on the performed business operations, is calculated for every type of agricultural activities (plants and livestock) and not for the entire agricultural holding.

5. Final remarks

In case of agricultural accounting for the needs of management cost accounting should cover the division of production costs into direct and indirect ones. It is also important to perform the ongoing recording and monitoring of cash revenues and expenditure.

Cost account in agricultural activities and its application is more complicated than in case of other economic entities (i.e. non-agricultural activities) owing to the specific nature of farming. It results from limited production capacity, combining manufacturing processes with running a farm (i.e. obviously an individual farm), as well as not taking into account, quite frequently, the depreciation costs in the course of calculation processes for managerial purposes. The awareness of costs and their structure represents the fundamental factor in the broadly approached decision-making process regarding current and future issues at both micro and macroeconomic scale.

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SYSTEM RACHUNKU KOSZTÓW
W RACHUNKOWOŚCI ROLNEJ

Streszczenie: Prowadzenie rachunkowości rolniczej i podstawowa wiedza na temat kosztów, ich ewidencji oraz prezentacji pozwalają na prawidłowe działania w zakresie podejmowania decyzji na poziomie zarówno operacyjnym, jak i strategicznym. W perspektywie konieczności prowadzenia w Polsce księgowości przez gospodarstwa rolne zdefiniowanie i wdrożenie odpowiedniego systemu rachunku kosztów w tychże jednostkach wydaje się aktualnym problemem. Celem artykułu było zatem zaprezentowanie klasyfikacji kosztów oraz zdefiniowanie rachunku kosztów w rachunkowości rolnej. Przedstawiono również warianty ewidencji kosztów, mając na uwadze specyfikę działalności rolniczej. Podstawowymi metodami badawczymi wykorzystanymi przez autorkę były: metoda analizy i krytyki literatury przedmiotu oraz metody formalne (metoda opisu graficznego i tabelarycznego).

Słowa kluczowe: rachunkowość rolnicza, koszt, struktura kosztów, nadwyżka bezpośrednia, rachunek kosztów.
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GOING CONCERN ASSUMPTION AND FINANCIAL ANALYSIS

Abstract: The paper deals with the “going concern assumption” issue and its hidden displays in the economic theory as well as clear declaration in financial accounting. It reveals the perspectives for determination whether a certain business entity follows the going concern principle or not. A practical example shows the evaluation of results of the business entity that did not follow the above-mentioned principle.

Keywords: going concern assumption, financial factors, ISA 570, prediction.

1. Introduction

The going concern assumption is one of the basic assumptions valid in all domestic as well as international arrangements of financial accounting. This assumption may be even found well hidden in multiple economic theories. It is revealed as the theory examines the behaviour of economic entities in a long-term perspective. See for instance the profit maximization theory in a long-term perspective. We can say that – in terms of long-term stability and existence of an enterprise – this is the most important goal and also the most frequently discussed theme in the literature dedicated not only to business management and accounting, but also to pricing policy [McCloskey 1993; Vysušil 1994; Tomek 1992]. One of the most cogent opinions on profit maximization in a long-term perspective can be found in the literature where D.N. McCloskey gives reasons for such profit maximization [McCloskey 1993]. H.R. Varian deals with this topic also in the consideration of business risks [Varian 1995]. He says that in the world of certainty it is obvious that the maximization of the current value of profits represents a similar goal as the maximization of enterprise value in a long-term perspective.

The conception of long-term reporting, measuring and evaluation of economic phenomena in practice is based on a certain assumption about the period of future

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enterprise existence. In an accounting we talk about the assumption that an entity will permanently remain in business for the foreseeable future. The assumption of continuous business existence is included in multiple U.S. accounting standards. It is one of the basic presumptions that form the content and form of information coming out of accounting. In more details the going concern principle is covered in U.S. GAAP Statement on Auditing Standards No. 1.\(^2\)

The estimation of company perspective is a basic decision-making task for each potential investor or accounting information user. Therefore all the information should be neutral and presented in a way so that the going concern/liquidation assumption results from decisions made on the basis of the information available. In no case the information should be prepared on the basis of assumptions. Estimations of a company’s existence perspectives are based not only on accounting data, but also on financial analysis methods. Quite often various methods produce contradictory results and we can say that the future of a business enterprise is often influenced by facts and decisions that do not come out from accounting or financial analysis.

2. Factors signalizing doubts regarding the going concern assumption

The going concern assumption is one of the basic principles applied by the accounting unit while compiling the financial statements. Pursuant to this assumption, the accounting unit is considered as an entity that will remain in business for the foreseeable future, does not intend or is not forced to go into liquidation. The assumption is applied by the company management at least for the next twelve months following the balance sheet day. While evaluating this assumption, the company management considers future results in relation to external/internal conditions and especially the potential risks. The main disadvantage of such evaluation is the fact that it is mainly based on the information available at the time of the evaluation that immediately pertains to size, complexity, sphere and nature of business.

The international standard on auditing ISA 570 shows examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption. They are classified in three groups:

1. Financial factors:
   - net liability or net current liability position (compared to assets),
   - excessive or long-term use of short-term borrowings to finance long-term assets,
   - negative operating cash flows,
   - adverse key financial ratios,
   - substantial operating losses or significant deterioration in the value of assets used to generate cash flows,

\(^2\) AICPA Statements on Auditing Standards No. 1 and Procedures, Section 341: The auditor’s consideration of an entity’s ability to continue as a going concern.
Going concern assumption and financial analysis

- inability to pay creditors on due dates,
- change from credit to cash-on-delivery transactions with suppliers,
- inability to obtain financing for essential new product development or other essential investments.

2. Operating factors
- management intentions to liquidate the entity or to cease operations,
- loss of key management without replacement,
- loss of a major market or principal supplier(s),
- labour difficulties,
- emergence of a highly successful competitor.

3. Other factors
- changes of legislation or state policy with a negative impact on the entity,
- pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy,
- uninsured or underinsured catastrophes when they occur, etc.

The factors above do not appear all at the same time, some other factors may appear as well and not all of them must necessarily operate in the same direction. The weight of some of these factors may be reduced by influence of other factors. And also not all these factors may be assessed using the available financial statements only.

3. Financial analysis and its predicative abilities

The above-mentioned financial factors may be examined and analysed using the methods of financial analysis. For decade economists all over the world endeavour to be able to read from the financial statements not only the history but also the future development of a business entity. The attention is usually focused on cases and situations of extinction or financial distress of serious nature. The company is then unable to apply the going concern principle thoroughly.

The abilities to predict financial distress of companies have been examined by theoretician as well as practitioner economists for years. The first problem however is how to define the term “company in financial distress” and also the company without assumption of future existence. According to R. Grünwald and co-authors financial distress is an opposite extreme to complete financial health of an entity (but again the definition of the term “complete financial health” is missing) [Grünwald et al. 1992, p. 86].

Financial situation of a company may not be satisfactorily quantified using one or more indicators. It is therefore obvious that also one quantitative characteristic does not allow for determining the state when petty financial problems evolve into a serious financial distress. Therefore the financial distress is mostly defined verbally. One of the definitions is as follows: “Financial distress is a financial state of
a company undergoing serious payment issues that can only be resolved by radical change of company activities or structure” [AICPA, Statements..., p. 44].

The direct analysis of ratio indicators of profitability, activity, liquidity, indebtedness and capital market indicators provides the indicators having only a limited predicative ability. Moreover their isolated assessment may result in serious mistakes. These indicators are often used by the company management to assess its financial situation.

3.1. Financial distress prediction

Relatively insufficient predicative ability of individual indicators of financial analysis is one of the reasons why various groups of indicators have been applied both in theory and practice in a long-term perspective, covering multiple influences that affect the company financial situation [Černá et al. 1997, p. 82].

In market economies certain methods of financial analysis were developed that make the use of ratio indicators for the prediction of probable financial distress or bankruptcy.

The first financial analyst to use statistical methods was W.H. Beaver who dealt with difficulties of companies to settle their financial liabilities. Beaver tested 30 financial indicators, but not all of them had the similar level of statistical relevancy for predictions and financial forecasts. The statistic indicators were monitored in two groups of companies – challenged and unchallenged. Challenged companies were those which – during the period from 1954 to 1964 – reported bankruptcy, failed to meet their obligations under the issuance of bonds, their bank accounts were overdrawn or failed to pay out the dividends from priority stocks on time. Some of these criteria are quite tough considering the conditions that are commonly experienced in the Czech market.

The evaluation of financial distress of companies was researched by E.I. Altman, who applied the statistical method of discriminant analysis to determine the weights of individual ratio indicators. In his research (like Beaver) he used two groups of companies – prospering and bankrupting. During his researches he developed two basic models. The first one was for listed public limited corporations and the second one for other companies. Some economists state it was just an improved version of the original Altman’s model. Altman came with the following assessment equation:

\[ Z_i = 0.717 X_{1i} + 0.847 X_{2i} + 3.107 X_{3i} + 0.420 X_{4i} + 0.998 X_{5i} \]

where:

\[ i = 1 - n \] are individual periods,

coefficients are weights assigned by means of discriminant analysis to independent variables \( X_{1i} - X_{5i} \),

\[ X_{1i} = \text{short-term assets} - \text{short-term liabilities/total assets}, \]

\[ X_{2i} = \text{undistributed profit/total assets}, \]
\( X_{3i} = \text{pre-tax profit} + \text{interests/total assets}, \)
\( X_{4i} = \text{book value of owned capital/nominal value of debts}, \)
\( X_{5i} = \text{revenues/total assets}, \)

During the process of development above, variable \( X_{4i} \) changed. Originally it was defined as follows:

\( X_{4i} = \text{market value of priority and ordinary stocks/nominal value of total debts}. \)

At the same time the so called grey area was determined. Altman himself considered the companies with \( Z_i < 1.2 \) as non-stable firms with a long-term risk of bankruptcy. On the other hand the probability of survival of companies with \( Z_i > 3.0 \) may be considered as practically sure. Companies in the so called grey area with the coefficient values within the range 1.23–2.90 (originally 1.81–2.99) are considered as problematic as no statistically demonstrable prognosis is available for them. We may characterize them as financially average companies with a minimum risk of bankruptcy in a short-term horizon. In 1995 Altman came up with a new model that excludes the variable \( X_{5i} \). According to the author this model is rather intended for non-production companies. It should be pointed that the Altman’s model was verified in multiple countries with various groups of companies and the difference between the average values of \( Z_i \) coefficient was quite significant in all the cases. This was probably the reason for the analysis of the situation in the Czech market to develop a similar instrument with a predicative capability for companies in the Czech Republic. It should be noted that the following model was developed in the period after 1989, i.e. the period of rather unstable and hardly predicable situation in the Czech Republic economy (in a long-term perspective).

Similarly as Altman’s \( Z \)-score, also \( IN \) index (index of credibility) is used for the assessment of financial health of a company and its credibility. This indicator was developed by Czech specialists on a similar principle as Altman’s model. It should be used for assessment of economic situation of domestic companies operating in the conditions of the Czech Republic. This cumulative indicator went through various changes. Six individual indicators are used and weighted based on their relevancy. Individual indicators are divided into three groups of assessment: indebtedness, profitability and activity, liquidity. The assigned weights reflect the relevancy of each individual indicator. Weights \( V_2 \) and \( V_5 \) are identical for all branches. The other weights differ based on the branch classification of economic activities.

Here is the cumulative indicator for the Czech Republic:

\[
\text{Index } IN = V_1 X_{1i} + V_2 X_{2i} + V_3 X_{3i} + V_4 X_{4i} + V_5 X_{5i} + V_6 X_{6i},
\]

where:
\( i = 1 - n \) are individual periods,
\( X_{1i} = \text{total assets/foreign resources}, \)
\( X_{2i} = \text{EBIT (operating earnings)/interest expense}, \)
\( X_{3i} = \frac{\text{EBIT (operating earnings)}}{\text{total assets}}, \)
\( X_{4i} = \frac{\text{revenue from sale of products, services and goods}}{\text{total assets}}, \)
\( X_{5i} = \frac{\text{short-term assets}}{\text{short-term liabilities} + \text{short-term bank credits}}, \)
\( X_{6i} = \frac{\text{liabilities after maturity}}{\text{revenue from sale of products, services and goods}}. \)

If the resulting value of \( IN \) index exceeds 2.0, we can conclude that the company is healthy in terms of its finances. Should the resulting value be between 1.0 and 2.0, the company health is sustainable, but subject to various risks of financial problems. The value under 1.0 points to a bad financial situation of a company. The calculation is – similarly to Altman’s model – based on the values for the period of one year. This means that also the monitoring of the history of \( IN \) index over time makes sense.

### 3.2. Other methods

In the economic theory and practice there are few other methods and models used. The similar approach as Altman was displayed in Great Britain by R. Tafler who also used the discriminant analysis as a basis for calculation. Tafler not only emphasized the value of \( Z \) indicator itself, but especially its development in time. Brigham and Gapenski state that the above mentioned types of models derived from the discriminant analysis method are not only used in companies, but also in investment banks such as Salomon Brothers or Morgan Stanley for valuation of stocks at acquisitions and mergers. The biggest advantage of indicators assessing the financial situation of an entity using a single value is the ease of their comparing in time and space.

As for other methods, we can mention so called fast test. The author based the fast test on the group of absolute and relative indicators. The input values are represented by 22 absolute values from the balance sheet and the profit & loss statement. The original fast test covers six groups of ratio indicators testing productivity, profitability, costs, liquidity, solvency, and structure. These groups can be used to compile 96 indicators. From the fast test seven ratio indicators may be selected that represent the system of early warning. The method of early warning may be assessed in two ways: using the standard values of ratio indicators or using the growth standards of ratio indicators.

The disadvantage of this method is the fact that the business assessment depends on the standard values of indicators and there may be differences in individual companies, spheres of business and industrial branches. Growth standards are used to determine the rate of growth. With regard to assessment of the company health and its future, this method is considered as tentative only.
4. Assessment of the particular business entity’s ability to continue in business based on the selected financial factors pursuant to ISA 570

In the following text we will try to evaluate the going concern ability of a particular business entity engaged in glass-making industry. The evaluation will be based on the data taken from financial statements (balance sheet and the profit & loss statement) for the past four years. We know that as of 30.9.2011 the company ended its business activities. While assessing the company we will follow the requirements of the International Standard on Auditing – ISA 570 and then we will use the Altman’s model. With regard to each indicator we pay more attention to the history of analysed values over time than the level of individual indicators. We will start with the financial factors.

**Liabilities or short-term liabilities are higher than assets**

**Table 1. Assets and short-term liabilities**

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<tbody>
<tr>
<td>Total assets (gross) in thousand CZK</td>
<td>92 727</td>
<td>89 805</td>
<td>78 069</td>
<td>71 514</td>
<td>37 459</td>
</tr>
<tr>
<td>Correction</td>
<td>-48 392</td>
<td>-43 553</td>
<td>-39 413</td>
<td>-37 917</td>
<td>-22 252</td>
</tr>
<tr>
<td>% depreciation</td>
<td>52.2</td>
<td>48.5</td>
<td>50.5</td>
<td>53.0</td>
<td>59.4</td>
</tr>
<tr>
<td>Total assets (net) in thousand CZK</td>
<td>44 335</td>
<td>46 252</td>
<td>38 656</td>
<td>33 597</td>
<td>15 207</td>
</tr>
<tr>
<td>Short-term liabilities in thousand CZK</td>
<td>6 572</td>
<td>5 377</td>
<td>2 190</td>
<td>1 723</td>
<td>553</td>
</tr>
<tr>
<td>Short-term liabilities/assets (gross) in %</td>
<td>7.09</td>
<td>5.98</td>
<td>2.80</td>
<td>2.41</td>
<td>1.48</td>
</tr>
<tr>
<td>Short-term liabilities/assets (net) in %</td>
<td>14.80</td>
<td>11.63</td>
<td>5.66</td>
<td>5.13</td>
<td>3.64</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: authors’ own work based on input data.

From Table 1 it is obvious that:

a) the company has no long-term liabilities and that the share of short-term liabilities in the total value of assets (gross as well as net) is minimum and is declining over time. These are especially the liabilities towards employees and liabilities from trading. We can conclude that the company runs the business without the support by banks.

b) total value of assets (net book and acquisition values) was declining until the date of financial statements for 2010 (almost by 25%). At the same time we can say that the company worked with relatively worn machinery and during the analysed period no renewal attempts and innovations were registered.
Another financial factor pursuant to ISA 570:

**Extensive or long-term use of short-term foreign resources for financing of long-term assets**

From Table 2 as well as Figure 1 it is obvious that the share of short-term foreign resources in the financing of long-term assets (the difference between the values DA net and own resources) has existed since 2007. It was of a long-term nature but the significance of it was rather low and it was declining as the liquidation approaches.

**Table 2. Relation between long-term assets and own resources**

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total LT assets (gross)</td>
<td>92 727</td>
<td>89 805</td>
<td>78 069</td>
<td>71 514</td>
<td>37 459</td>
</tr>
<tr>
<td>Total LT assets (net)</td>
<td>44 335</td>
<td>46 252</td>
<td>38 656</td>
<td>33 597</td>
<td>15 207</td>
</tr>
<tr>
<td>Own resources</td>
<td>37 205</td>
<td>39 040</td>
<td>35 984</td>
<td>31 681</td>
<td>14 654</td>
</tr>
<tr>
<td>Short-term liabilities</td>
<td>6 572</td>
<td>5 377</td>
<td>2 190</td>
<td>1 723</td>
<td>553</td>
</tr>
</tbody>
</table>

Source: authors’ own work based on input data.

**Figure 1. Relation between long-term assets and own resources**

Source: authors’ own work based on input data.

**Unfavorable key indicators of financial analysis**

The following indicators are considered as key indicators of financial analysis: profitability, activity, liquidity and indebtedness. The following values are prepared for the years 2007–2011. The values from 2011 must be understood as informative only, as they are based on the final financial statements prepared as at the liquidation date of the accounting unit.
**Profitability analysis.** Profitability indicators are the most intensively monitored indicators determining the ability of a company to generate a certain amount of revenues. In theory we have multiple types of profitability indicators, such as earning capacity, profitability, rate of return, etc. In our case, for the evaluation of company situation, we make use of profitability indicator based on the company profit. In the first case we have the indicator with economic result before tax and interests in the numerator and total expended capital of the company in denominator.

Return on assets = Net profit + interests \((1 - \text{tax rate})/\bar{\text{Assets (total)}}\).

Return on equity = Net profit/\bar{\text{Equity}}.

![Figure 2. Profitability indicators (in %)](image)

Source: authors’ own work based on input data.

The second indicator of profitability shows the share that will fall on partners and shareholders per one unit of means invested in the company and generated by the company. It is obvious that both types of profitability were declining in the period 2007–2010 from significantly positive values down to negative values. Negative values are caused by decrease of the profit indicator in numerator in 2009 to red numbers. The history of both types of indicators of profitability points to undesirable development in the company, in spite of the fact that negative profitability is nothing unusual for many companies in a short-term perspective.

**Activity analysis** is aimed at the indicators of turnover rate that may be presented in two ways – as indicators of turnover rate or assets/liabilities turnover time (in time units). Turnover rate indicators characterize relative time during which the capital is bound in form of certain assets. The manufacture in the company analysed is quite demanding in terms of materials, therefore we selected the inventory turnover rate indicator. This indicator is not only affected by the technology of production, but
also by the method and amount of valuation of individual types of inventory. The optimum value of this indicator cannot be determined. On the basis of the cumulative indicator we cannot find out whether the structure of inventory was changing during the years (e.g. the share of input materials is decreasing and the number of no more wanted finished products is growing).

\[
\text{Inventory turnover rate} = \frac{\partial \text{Inventory}}{\partial \text{Daily earnings}} = \frac{\partial \text{Inventory}}{\text{Earnings}/365}.
\]

Despite this, from Figure 3 it is obvious that the inventory turnover rate between 2007 and 2010 extended almost twice, which is – in the view of the company financing – very unfavourable.

![Inventory turnover rate](image)

**Figure 3.** Inventory turnover rate

Source: authors’ own work based on input data.

**Receivables turnover rate** in Figure 4 has not been growing as fast as the inventory turnover rate, however, it has been extending over the years, which results in higher capital costs and also higher administrative burden.

\[
\text{Receivables turnover rate} = \frac{\partial \text{Receivables (short-term + long-term)}}{\text{earnings}/365}.
\]

At the same time it signals that on the part of the clients there may be a risk of change of financial situation from good to worse, which may in turn result in more receivables after maturity. While assessing the receivables turnover ratio based on the balance sheet we cannot determine reliability and number of clients or the methods of payments of the receivables. We can only conclude that the turnover rate has been extending which is in general considered as unfavourable effect.

**Liquidity analysis.** In general liquidity represents the ability of the company to convert its assets into cash to be able to cover its liabilities [Ross et al. 2005]. In terms of time we for instance have assets liquid within 10 days, within a month or in other term. Based on the required level of liquidity measuring certainty, assets with various liquidity (i.e. convertibility to cash) are entered into numerator. In most cases
the short-term assets are used. Under certain circumstances the short-term liabilities higher than the short-term assets (and vice versa) do not necessarily mean the company is managed poorly. The key is the company strategy. The commonly used liquidity indicators are based on the balance sheet. It is, however, a statistical statement with values valid at the certain moment of time, which means that more relevant is the trend of the indicators. From all the liquidity indicators below it is obvious that the values are rising. This may be caused either by increase of value in the numerator or decrease of value in denominator.

$1^{st}$ level liquidity (immediate) = \(\frac{\text{cash}}{\text{short-term liabilities}}\),

$2^{nd}$ level liquidity (ready) = \(\frac{(\text{short-term assets} - \text{inventory})}{\text{short-term liabilities}}\),

$3^{rd}$ level liquidity (common) = \(\frac{\text{short-term assets}}{\text{short-term liabilities}}\).

According to A. Knápková et al. [2012] the $1^{st}$ level liquidity should vary from 0.2 to 0.5. Even if these standard values are ignored, it is obvious that high values of the indicator point to inefficient use of financial means that exceed the short-term liabilities multiple times.

The indicator of $2^{nd}$ level of liquidity should vary from 1 to 1.5. By comparing these values with the previous level of indicator, it is obvious they are higher and also considerably higher than the standard. The values are rising in time which again signalizes an adverse trend.

$3^{rd}$ level liquidity is also referred to common liquidity. It states how many times the current (short-term) assets cover the short-term foreign liabilities of an entity. Again the rising trend is obvious. High liquidity leads to lower revenues and lower risks or higher costs. In this case the negative effect from the high level of liquidity is especially caused by:

![Figure 4. Receivables turnover ratio](source: authors’ own work based on input data.)

Days: 0, 50, 100, 150, 200, 250, 300, 350, 400, 450


Values: 55, 61, 72, 80, 410
– too high ratio between long-term liabilities having the nature of own resources only and the short-term foreign resources,
– high portion of unfinished production.

Figure 5. Liquidity indicators
Source: authors’ own work based on input data.

In any case, while managing the liquidity, the strategy of the relevant company is the decisive factor. During the analysed period all the above three levels of liquidity increased almost three times, which is mainly caused by a considerable decrease of short-term liabilities (see Table 3). A considerable share from the short-term liabilities is represented by trading liabilities, which may point to a controlled or forced (due to circumstances) attenuation of business activities.

Table 3. Values of current (short-term) assets and short-term liabilities

<table>
<thead>
<tr>
<th>Years</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total short-term assets</td>
<td>35 888</td>
<td>38 615</td>
<td>32 430</td>
<td>28 879</td>
<td>11 646</td>
</tr>
<tr>
<td>Short-term liabilities</td>
<td>6 572</td>
<td>5 377</td>
<td>2 190</td>
<td>1 723</td>
<td>553</td>
</tr>
</tbody>
</table>

Source: authors’ own work based on input data.

**Indebtedness analysis** is based on the measuring of three basic variables: equity, foreign capital and total capital invested. To analyse the indebtedness, many forms of indicators are used. In our particular case we use the indicator of creditor’s, i.e. the ratio between the foreign capital and the total capital (equity + foreign capital). With
the increasing indebtedness, the value of this indicator should be rising (provided that the company has not a negative equity).

\[
\text{Indebtedness} = \frac{\text{Total liabilities} + \text{leasing instalments}}{\text{total capital} \ (\Sigma \text{assets})}
\] (creditor’s risk indicator)

![Figure 6. Indebtedness](image)

Source: author’s own work based on input data.

The company has no long-term foreign resources, the short-term resources are decreasing faster than the value of the total capital invested. The company indebtedness is decreasing which points to a **favourable trend**.

By summarizing the development and predicative ability of financial analysis indicators used, we get the following characteristics:

- profitability indicators – negative trend,
- activity indicators – negative trend,
- liquidity indicators – negative trend,
- indebtedness indicator – positive trend.

Now let us examine the conclusions we got using the prediction of Altman’s Z score indicator (Figure 7). Its characteristics can be found in section 3.1 herein. It is the second type of Altman’s model that was developed for non-listed public limited corporations.

From Figure 7 it is obvious that the predicative ability of Altman’s model in our case completely failed, as it predicts trouble-free future development and growth of the company. There may be two explanations:

1) Altman’s model is completely unsuitable for this particular company,
2) the values of individual indicators covered in the Altman’s model.

From Table 4 it is obvious that the indicator \( X_4 \) has a clearly growing tendency. It represents the share of own equity to foreign capital. In this particular company foreign capital is represented by short-term liabilities only (towards employees and
Olga Hasprová, David Pur

The growing tendency is given by a strong decline of the value of short-term liabilities in denominator of the individual indicator. The indicator $X_4$ is the indicator of indebtedness that affected the value of Altman’s model more than significantly.

**Table 4.** Altman’s model indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>$X_1$</td>
<td>0.47</td>
<td>0.52</td>
<td>0.57</td>
<td>0.57</td>
</tr>
<tr>
<td>$X_2$</td>
<td>0.64</td>
<td>0.64</td>
<td>0.70</td>
<td>0.70</td>
</tr>
<tr>
<td>$X_3$</td>
<td>0.53</td>
<td>0.13</td>
<td>-0.21</td>
<td>-0.26</td>
</tr>
<tr>
<td>$X_4$</td>
<td><strong>2.27</strong></td>
<td><strong>2.53</strong></td>
<td><strong>6.90</strong></td>
<td><strong>7.72</strong></td>
</tr>
<tr>
<td>$X_5$</td>
<td>1.53</td>
<td>1.09</td>
<td>0.64</td>
<td>0.84</td>
</tr>
</tbody>
</table>

Source: authors’ own work based on input data.

At the end we can agree with D. Kovanicová and P. Kovanic who said that: “models influencing the economic reality are only simplified approximations of imperceptible complex matter of fact and even a successful model is only a partial phase in the exploration of such reality” [Kovanicová, Kovanic 1995, p. 378].

The analyses of company financial situation described above have not brought the clearly negative implications and effects regarding the impairment of the going concern assumption. The company faced excessive inventory and especially the constantly decreasing revenues. This situation resulted in the growth of bound capital.
and with the decreasing revenues the production efficiency declined. A considerable amount of assets was bound in the form of cash on bank accounts that brought a minimum effect only.

5. Assessment of the ability of a particular company to continue the business based on the operational factors and other influences pursuant to ISA 570 standard

These are the factors that cannot be relevantly assessed externally. Considering the general situation in the glass-making industry in the Czech Republic we can assume it is a significant negative factor. The intention of the company management to liquidate the company or to discontinue the manufacture is not clearly stated here, but considering the significant decline of the volume of orders, maturity and no effort to renew the machinery and equipment, aging of management, the consequences of these intentions on grounds of the recent economic results are strong.

Loss of important market. The business entity was a traditional producer of hand-cut components for crystal chandeliers. Its products were distributed not only to domestic market, but also to foreign countries. Long-term clients came from the former Soviet Union, Poland, France and partially Japan. In 2000 and 2001 the crisis hit this business sphere significantly. The most significant decline of total revenues was registered during the period from 1999 to 2004 (by approx. 65%) – according to our opinion this was a breaking point for the company and the management. An intense decline continued also in 2009 – almost 82% compared with 1999. According to our opinion this was one of the main reasons for extinction of the company.

6. Conclusions

Quantitative indicators for the assessment of companies should be respected, but never overrated. Each of the ratio indicators evaluates the company situation or its development by a single number – it only measures one particular attribute of very complex process. We must be aware that economic process has many attributes and there are various links amongst indicators. The truth is that what seems to be an indicator of health and growth for the one company may be a prediction of soon end for the others. According to the results presented in this paper the business entity should – according to three indicators – be in economic troubles, but according to the last indicator and also according to the cumulative indicator, the company situation seems to be favourable.

Business entities operate under the constantly changing conditions of technological and economic nature. On the background of these conditions a major role is played by mental strength and decisions by owners, investors or management. This
phenomenon is especially obvious in small and medium-sized companies. These are the factors that cannot be quantified, but in many cases they are decisive for business continuation.

References

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SAFETY OF THE CAPITAL INVESTED  
IN THE STRUCTURED PRODUCTS AVAILABLE  
AT THE FINANCIAL MARKET IN POLAND  

Abstract: The aim of this article is to answer the questions of whether an investment in the structured products on the Polish financial market provides the capital safety declared by the issuers of such products and whether a customer – a non-professional investor in particular – is able to correctly assess the capital protection level on the basis of the information available to him. The study covered the structured investment products subscribed to on the Polish market during the first quarter of 2013.

Keywords: structured products, capital safety, scope of capital guarantee.

1. Introduction

The recent decrease in interest rates offered on deposits and the prospects for economic recovery have triggered a parallel increase in the activity of companies offering structured products. These instruments embody the characteristics of traditional banking products and of products related to the capital market. According to S. Das [Das 2001, pp. 1, 2], structured products are those which are a combination of fixed income instruments and derivatives, usually profiled as forwards or as options for specific underlying assets. A similar definition of a structured product is offered by Polish authors, K. Jajuga and T. Jajuga, who state that it is a hybrid instrument constituting a combination of a debt instrument and an option (a regular or multivariate one) [Jajuga, Jajuga 2006, p. 394].

The practice related to these products’ performance allows a negative assessment of their profitability potential. The market data collected by Open Finance show that only four out of 10 structured products maturing in 2012 produced some profit, and the interest earned from a number of them did not exceed the bank deposit rates\(^1\) [Krasoń 2013, p. 1]. The research conducted by the Financial Supervision

\(^1\) Performance of 5% pa or higher was reached by 93 structured products, i.e. 16% of all the matured products. The average rate of return of 585 structured products maturing in 2012 was 1.44%.
Commission, covering the period 2000–2010, also indicates low efficiency of these products. In the analyzed period the average return rate for a client on investment in structured products amounted to 3.31% on an annual basis and was lower from the average return rate on term deposits (4.30%) [Mokrogulski, Sepielak 2010, p. 46]. The negative assessment of these products’ profitability gave rise to doubts about the safety of capital invested in them.

The aim of this article is to answer the questions of whether an investment in the structured products on the Polish financial market provides the capital safety declared by the issuers of such products and whether a customer – a non-professional investor in particular – is able to assess correctly the safety level on the basis of the information available to him. The subject of the study were the structured investment products subscribed to on the Polish market during the first quarter of 2013 (67 products in total) and having various legal statuses, namely deposits (36 products), unit-linked insurance policies (19 products), certificates of deposit (six items), group unit-linked life insurance policies (five products), or foreign mutual investment funds (one product).

Safety of the funds invested in structured products was analysed in three aspects: the capital protection level declared by the product issuer, the possible capital loss in the event of early withdrawal of funds, and the risk of issuer’s default.

The source of information about the products on offer were the information documents available at the issuers’ websites and at the websites dedicated to the structured product market, such as http://www.structus.pl/ or http://www.analizy.pl/.

2. Capital protection level declared by the product issuer

Prior to deciding to purchase a structured product, the investor should investigate how large a part of the potential investment would be protected. This can be done by reviewing the respective product information documents published by issuers in various forms and under various names, like product data sheet, terms of deposit, information materials, general insurance conditions, annex to the general conditions, fees and limits tables, product information brochure, prospectus, etc. Sometimes identification of all the product parameters makes it necessary for an investor to read even a few multi-page information documents.

Establishing the investment guarantee level declared by a product issuer should not pose any difficulty for investors. This information is given both in the advertising

2 During the period analysed, structured products were offered by: banks (Alior Bank SA, Bank Millennium SA, BGŻ SA, Bank Pocztowy SA, Bank Zachodni WBK SA, BNP Paribas Bank Polska SA, BRE Bank SA and its daughter companies dedicated to retail banking, i.e. mBank and Multibank, Citi Handlowy, Deutsche Bank PBC SA, Eurobank SA, ING Bank Śląski SA, Kredyt Bank SA, PKO BP SA and Raiffeisen Bank Polska SA), insurance companies (Nordea Polska Towarzystwo Ubezpieczeń na Życie SA, PZU Życie SA, Towarzystwo Ubezpieczeń na Życie WARTA SA, KBC Towarzystwo Funduszy Inwestycyjnych SA) and financial consulting firms (Expander Advisors Sp. z o.o.).
Safety of the capital invested in the structured products in Poland

materials and in the information documents. The structured products may be offered with full, partial or conditional protection of capital and sometimes also with a guaranteed minimum rate of return.

The investment guarantee is resulting from the composition of a structured product, i.e. from it being composed of at least two products where one generates profit on investment and the other is to rebuild the funds contributed by the investor and depleted by the cost of acquiring the profit-generating instrument (option price) and by the premium charged by the issuer. The instrument performing towards the capital reconstruction is a secure instrument whose type depends on the legal form of structured product selected by the issuer. This can be a zero-coupon bond, a savings deposit, an insurance policy, a certificate of deposit, a mutual fund unit, etc.

A vast majority of structured products covered by the survey (approx. 90%) offered full capital protection, which means that unless a customer withdraws early, he will recover at least 100% of the funds invested. The safest products are those which in addition to a recovery of capital provide a guaranteed rate of return, for instance at the level of a few percent. Among the products examined, only one was offered with a guaranteed rate of return, the value of which varied in subsequent subscriptions between 2.5 and 4%, while others offered only incomplete or conditional protection or did not provide any protection at all.

Upon choosing a structured product it should be remembered that a product that guarantees a higher level of capital protection will also offer less chance of significant profits, and vice versa – a relatively low level of capital protection can be rewarded with a higher rate of return.

In order to increase the potential profitability of such investments, their designers resort to offering products without full capital protection. With a capital guarantee reduced to below 100%, the amount available to purchase an option increases.

Incomplete capital protection (e.g. 90%) means that a customer investing in this product accepts the risk of a loss, with the maximum possible volume of such loss known in advance. The value of incomplete capital guarantee for products subscribed to during the first quarter of 2013 ranged from 90 to 97%.

Another, somewhat less transparent, solution is a conditional guarantee where the 100% capital guarantee works only if a specific condition is met. The condition most frequently applied is that the 100% protection will remain active provided that during the term of investment the underlying instrument (e.g. the WIG20 index) never drops by 30% or more (counting from baseline). The capital invested by the customer is therefore fully protected only with moderate declines in the index value.

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3 The “ILT Pewny Procent” (“ILT Safe Interest”) product offered by ING Bank Śląski SA.
4 The lowest level of protection was offered by Ekspander with their product Spokojna Przystań III (Peaceful Haven III).
5 Such a condition of capital protection is included for instance in the terms and conditions of Certyfikat Ekspresowy (Express Certificate), a product offered by Deutsche Bank PBC and linked to the WIG 20 index value.
However, on the market there are also products for which a correct assessment of the capital guarantee scope is more difficult. The problem concerns the so-called “Pareto-like” products\(^6\) which are a combination of a savings scheme and a structured product with full capital guarantee. The issuers of these products offer protection of the premiums total invested during the investment period and not a capital guarantee offered with all the other products. This change in terminology is very important and can mislead the investor in his investigation of the capital protection level. The premium invested is not equivalent to the capital invested: the value of premium invested is the paid-in funds less the management fee charged for investment management. For example, with a product called “db Inwestuj w Przyszłość – Stabilny Wzrost VII” (“db Invest in the Future – Stable Growth VII”) offered by Deutsche Bank PBC SA, a customer purchasing this product was required to pay in the initial premium of PLN 2,000 and undertook to pay regular monthly premiums of PLN 200 for the next 10 years. The premium invested was ten times the initial premium amount, i.e. PLN 20,000. The premium invested (i.e. the total amount of investment) was charged a management fee, collected each month from the regular premiums. In the product data sheet, the customer could read that the guaranteed protection level of the premium invested was 130%. The declared guarantee value could be interpreted as a capital guarantee with a 30% rate of return. However, as stated above, the guarantee applies to the premiums invested, i.e. the paid-in funds less the management fee, which for this product is calculated as an annual percentage (3% pa) of the total premium invested and is collected monthly from the regular premiums payable over the first 10 years of the policy validity period. This means that over the 15 years of product validity the fee would deplete the funds paid in by the investor by 30%. If an option produces no profit, after 15 years the customer will receive only what he paid in, and in fact (after an adjustment for inflation) much less.

The choice between products with full or partial capital protection should depend on each investor’s acceptable level of risk. Where risk acceptance is low and the investor does not accept even a partial loss of the capital paid in, full protection is a preferable option. Where – at the cost of a potential partial loss – he can hope for attractive returns, even if not guaranteed, he may be tempted to purchase a product with incomplete capital protection.

3. Possibility of a partial capital loss in the event of early withdrawal of funds

The capital protection declared by the structured products’ issuers is not applicable in the event of early withdrawal of funds. The possibility of capital loss in case of early withdrawal of the invested funds in a structured product results from the

\(^6\) In 2009 Noble Bank was the first company to offer a Pareto-based product – New Frontier.
construction of this product. As it has already been mentioned, capital guarantee is possible by the investment of some funds in a safe instrument which is supposed to reach the desired value upon the investment maturity amounting to the value of means put in by an investor. Prior to the investment finalization the secure instrument will not manage to restore the capital, while the withdrawal of means from an investment into a risky financial instrument (working for profit), the value of which is directly dependent on market conditions, may result in a loss. While investing in a structured product an investor has to take into account the possibility of partial capital loss, however, it is crucial that he/she is correctly informed about it before entering into an agreement. Such information should specify how the earlier payment will be calculated, as well as whether and what charges he/she will have to cover as the result of earlier termination of an investment.7

Structured products, with the exception of those listed at WSE,8 are low-liquidity investments, and a significant part of them9 entails freezing the investment capital for quite a long time (2–4 years, or even 10–15 years with the aforementioned “Pareto-like” products). Issuers do offer the option to withdraw the funds invested but sometimes fix the time when this can be done, e.g. once or twice a month (unlisted deposit certificates) or within 2–3 working days from a note of intent to exit the investment (insurance policies and deposits, respectively).

Early termination of such an investment usually entails extra charges. The magnitude of these charges and the customer’s chance to identify them beforehand is varied.

With structured products in the form of deposits – as opposed to standard deposits – investors not only lose the right to receive the interest that they would otherwise receive at the investment’s maturity (with standard deposits the loss is only partial) but also incur the liquidation charges. In the analysed group of products, early termination of structured products offered by BGŻ SA only10 did not entail any extra charges, while all the other issuers did collect such charges. Some issuers charged fees fixed at 3%11 regardless of the time of early termination, with others the early termination charges decreased linearly for each month passing towards the investment maturity with the initial rates varying between 6 and 4%.

7 In addition, it is also important what the available dates of early termination of the investment are and whether there are any restrictions imposed (e.g. a withdrawal request may be filed only once a month), but this does not affect the capital safety level.
8 Among the products examined, only Certyfikat Ekspresowy (linked to the WIG 20 DB PBC index value) was listed at Warsaw Stock Exchange.
9 Of the 67 products available during the period analysed, around 40% required investing funds for a period of two to four years.
11 Structured currency deposits, e.g. USD Dollar Plus, Polish Złoty Plus, USD Polish Złoty Stabilization BZ WBK, Investment Deposits Phoenix VII and German Growth I.
With insurance-based structured products, an early termination could entail:

- surrender of the account, which means reducing the value of paid-in funds by the fees charged during the contract term (e.g. entry, transactional or management fees),
- liquidation charge, which for the products analysed varied widely and was expressed either as an amount (e.g. PLN 200) or as a percentage (ranging from 1 to 17%), with the percentage rate calculated on various bases (e.g. on the current premium value or on the product of premium invested and the number of full calendar months remaining till the end of liability period).

This diversity makes interpretation of the costs related to early withdrawal very difficult. An example would be the following information contained in a table of fees and limits: “a liquidation fee, calculated as 0.49% of the product of premium invested and the number of full calendar months remaining till the end of liability period as of the date of receipt of a surrender note from the entity managing the insurance contract.”\(^\text{12}\) It is unlikely that the customer will interpret that as a possible maximum loss of 17.15% of the premium invested if he withdraws within the first month of the investment period lasting 36 months, and yet that is the correct deduction. The customer should obtain the information on the maximum possible loss which is the information allowing a direct comparison of the fees applicable to various products without having to make calculations.

Doubts as to the non-professional investors’ capacity for identifying the exit costs for an investment may also arise from the incomprehensible language of information documents. An example would be the following wording contained in an annex to the general conditions: “‘Current value of Premium’ shall mean the value determined by the Insurer as of each Determination Day and shall equal at least the sum of the value of a financial instrument ensuring the Bonus payment and the policy value as discounted on such Determination Day by the rate equal to the rate applicable to interest rate swaps (IRS) on the interbank market for PLN with maturity period corresponding to the time remaining till the end of the insurance period, as increased by 300 basis points.”\(^\text{13}\)

A proper understanding of the above content requires a knowledge level at least equivalent to that of a student of economics, and there is no such reservation related to subscriptions.

With regard to the insurance-based structured products, offered in the form of unit-linked life insurance policies, it should also be noted that an early withdrawal

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\(^\text{12}\) Annex to the general terms and conditions of insurance. Table of fees and limits for individual structured insurance contracts. Świat Zysków – Subscription #32: Optymalny Koszyk – product offered by PZU SA, http://www.analizy.pl/fundusze/dokument/pobierz/prod_strukt/PSPZU031/ZWU/2012-12-03.

Safety of the capital invested in the structured products in Poland entails redemption of the account value, calculated against the unit price (current as of the redemption day) that is subject to significant fluctuations.\textsuperscript{14} The impact of fees charged during the contract (e.g. transactional or management fees) on the value of early redemption must also be considered. The liquidation fee is charged on top and regardless of the aforementioned charges.

The largest cost of an early withdrawal may be faced by those investors who during the initial year withdraw from a long-term investment product of Pareto type, since they have the right to redeem only 25\%\textsuperscript{15} of the account balance. This value increases with each subsequent year of the investment term. Another key factor is that any delays in transferring the current premium payments may result in immediate termination of the contract and a resulting loss of a large part of the capital.

The structured products listed at Warsaw Stock Exchange (bonds and structured certificates) offer an option of early withdrawal through selling the instrument on the secondary market or returning it to the issuer.

4. The risk of issuer’s default

Safety of the capital invested in structured products is also affected by the risk of default on the part of the issuer in connection with his insolvency or bankruptcy. In order to secure the rights of customers in the event of financial institutions’ insolvency, governments set up statutory guarantee systems. In Poland such systems are in operation, but the extent of cover for claims arising from individual financial products varies.

In the event of insolvency of an “issuer” of any products that have the form of a deposit, customers’ claims are 100\% protected up to the limit of PLN 100,000. This guarantee arises from the statutory protection of claims, offered through the Bank Guarantee Fund (BGF) [Ustawa z dnia 14 grudnia 1994…]. However, if the funds are held in an investment deposit, which is a combination of a deposit and mutual investment fund units, the BGF guarantee applies to the deposit component only, while the unit-linked part is not exposed to such an insolvency since in the event of a mutual investment fund bankruptcy, the fund’s assets get transferred to another fund (TFI). Conversely, the structured products in the form of certificates are only protected by BGF if they have been issued under the Banking Act [Ustawa z dnia 29 sierpnia 1997…]. Those issued under the Act on Trading in Financial Instruments [Ustawa z dnia 29 lipca 2005…] are not covered by the system. Neither does the...

\textsuperscript{14} Its value often drops significantly – if there were any previous subscription of the product, it is advisable to see check their performance history.

guarantee cover any claims arising from investments in structured bonds. In the event of issuer’s insolvency, the customer may only file or enforce claims under the general provisions of Civil Code.

The situation is different if a structured product takes the form of a life insurance policy or a corporate unit-linked life insurance policy. In the event of insolvency of the insurance company who issued the product, the customer will recover 50% of his total claim value, the payment never being in excess of 30,000 euro as this is the limit of protection offered by the Insurance Guarantee Fund [Ustawa z dnia 22 maja 2003...].

The availability and scope of claims protection are therefore quite diverse and directly dependent on the issuer and the legal form of a specific structured product. A structured product buyer may have a problem with identifying both the issuer and the legal form of the product. A customer purchasing a structured product from a bank does not always know whether it is the bank’s own product or e.g. an insurance product issued by an insurance company cooperating with the bank, or whether the bank offers a corporate unit-based life insurance policy that they purchased from an insurance company to become a policyholder. In the information documents, the structured product issuers very rarely include the information on the (non-)coverage by the capital protection system (the notable exceptions are BZ WBK SA and Bank BPH SA). A potential customer should be made aware which part of his investment is protected and what is the nature of such protection. Where the funds invested are not covered by the statutory guarantee system, the customer should at least be made aware of the issuer’s creditworthiness.

5. Conclusions

The study results allow the following conclusions.

1. The information documents prepared by the structured product issuers are frequently incomprehensible and/or confusing for customers, and yet it is on their basis that the investors are supposed to make their investment decisions. The variety of forms and scope of the data presented makes any comparisons difficult and the incomprehensible legal language makes it hardly possible to understand the content.

2. The capital protection levels declared by the structured product issuers as applicable at the investment maturity are presented clearly enough, with the exception of long-term products with regular premiums.

3. It is far more difficult for an investor to use the information documents available for determining the amount of costs that would have to be incurred upon an early exit or whether, in the event of the issuer’s bankruptcy, his claims will be covered by the statutory capital guarantee system.

16 In many regions of the world, particularly in Asia, the structured products having the form of bonds issued by the Lehman Brothers Group companies have gained great popularity. The 2008 collapse of the investment bank meant a loss of most of the capital invested in these products.
In order to strengthen the position of investors, the Polish Financial Supervisory Commission should compel the issuers to introduce product data sheets standardized in terms of form, scope of information included and terminology used.

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Ustawa z dnia 29 sierpnia 1997 r. Prawo bankowe, DzU z 2003 r. nr 140, poz. 939, z późn. zm.
AUDIT COMMITTEE FUNCTIONING IN PUBLIC INTEREST ENTITIES – CURRENT STATUS AND FUTURE PERSPECTIVES

Abstract: The statutory obligation for an audit committee establishment in public interest entities is set forth in the Act on Statutory Auditors of May 7, 2009. It constitutes the crucial component of corporate governance system as the guarantor of financial statements accuracy, appropriate relations with statutory auditors and internal audit. The functions of audit committee, resulting from legal regulations, include: accounting system monitoring with main emphasis on financial reporting, internal control system and risk management system, as well as the supervision and coordination of internal and external audits. The objective of the hereby paper is to present the essence, role, tasks and rules of audit committee functioning, as well as identify problems referring to its functioning efficiency assessment and its evolution directions.

Keywords: audit committee, public interest entity, financial audit, financial reporting.

1. Introduction

Global financial crisis experienced in recent years and its negative consequences for the large listed companies and economic organizations have exerted strong impact on changes occurring in financial reporting and auditing. This leads to certain observations regarding the current status of statutory audit and its future perspectives.

Financial audit is conducted in order to confirm financial information credibility and plays the role of a strengthening factor, or even determining trust and reliability in economic and social life. In order to meet these goals certain steps have already been and still are being taken regarding changes in financial audit effective in the European Union Member States. Particular attention should be paid to the introduced, for the first time in Polish legislation, regulations set forth in the Directive 2006/43/EC of the European Parliament and of the Council of 17th May 2006 on statutory audits of annual accounts and consolidated accounts [Dyrektywa 2006/43/WE] referring to appointing and functioning of audit committees, as well as their quality assurance, following adequate statutory requirements.
Audit committee functioning in public interest entities

The recommendation to appoint audit committees appeared for the first time in Poland eight years ago in Best Practices in Public Companies 2005. However, the obligation to establish them has not appeared in legal regulations until 2009 and was set forth in the Act of 7th May 2009 on auditors and their government, entities authorized to audit financial statements and public oversight\(^1\) [Ustawa z dnia 7 maja 2009…], and refers to public interest entities.

The objective of the paper is to present the essence, role, tasks and rules of audit committee functioning, as well as identify problems referring to its functioning, efficiency assessment and its evolution directions.

In order to meet the presented paper objective the method based on analytical and critical approach to the existing legislation was applied, as well as comparative analysis of legal regulations with non-mandatory solutions, supported by a deductive method.

2. The essence and role of audit committee

The problem of financial audit is referred to in the aforementioned Directive 2006/43/EC which, to a great extent, is based on American solutions. It takes into account several years of American experience owing to the fact that the first reactions to fraud, resulting in many enterprises’ bankruptcy and liquidation, occurred in the United States. In response to such cases the Sarbanes-Oxley Act of 30th June 2002 was enacted, the Public Company Accounting Oversight Board was appointed and new, special solutions with reference to accounting and auditing procedures were introduced.

Audit committee, referred to for the first time in the latest Act, represents one of the new bodies in the current structure of the financial audit activities oversight and control. In accordance with the regulations in force (American, European and Polish) an audit committee plays two basic functions. Firstly, it functions as a monitoring authority with regard to three systems functioning in an enterprise, i.e. accounting system covering financial reporting in particular, internal control system and risk management system. Secondly, its task is the oversight and coordination of work performed by both internal and external auditors.

In line with the first group of listed functions an audit committee, as one of corporate governance mechanisms, plays the role of financial information credibility guarantor with reference to financial information generated by an entity, ensures proper functioning of internal control system implemented by an entity management and provides assessment of the applied methods efficiency in risk identification, measurement and management. The second function performed by an audit committee is also important and consists in both, supervision and coordination of

\(^1\) For the purposes of the paper an abbreviated name of the aforementioned Act is used, i.e. “Act on financial Audit.”
work carried out by internal and external auditors. In this perspective an audit committee functions as the platform for cooperation and information exchange between external auditors and the audited entity bodies, including its internal auditors and the supervisory board, as well as between an audit committee and internal auditors.

In accordance with Art. 86 of the Act on financial audit [Ustawa z dnia 7 maja 2009…] an audit committee should faction in public interest entities, the members of which are appointed by the supervisory board or the control commission from among its members. An audit committee should be composed of at least three members. If, however, the supervisory board is made up of five or fewer members, the committee duties may be assigned to the board itself.

Attention should be paid to the fact that the solution set forth in the Act [Ustawa z dnia 7 maja 2009…] limits possibilities for audit committee establishment in other large economic entities in which supervisory board has no more than five members. This restriction is not included in the Directive 2006/43/EC [Dyrektywa 2006/43/WE…] in accordance with which a supervisory board without an audit committee should function only in small and medium-sized entities.

The Act lists public interest entities, obliged for audit committee appointing, enumeratively and also specifies entities exempt from such obligation. Table 1 illustrates the division into these two groups.

**Table 1.** Public interest entities obliged to and exempt from an audit committee establishment

<table>
<thead>
<tr>
<th>Public interest entities obliged to establish an audit committee</th>
<th>Public interest entities exempt from an audit committee establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Issuers of securities, having an official seat on the territory of the Republic of Poland, admitted to trading on a regulated market of the European Union Member State excluding local government units.</td>
<td>1. Open-end pension funds, pension societies and investment funds.</td>
</tr>
<tr>
<td>2. Domestic banks, branches of credit institutions and branches of foreign banks.</td>
<td>2. Branches of credit institutions and branches of foreign banks.</td>
</tr>
<tr>
<td>3. Credit unions.</td>
<td>3. Main branches of insurance institutions.</td>
</tr>
<tr>
<td>4. Insurance institutions and main branches of insurance institutions, as well as reinsurance undertakings.</td>
<td>4. Cooperative banks.</td>
</tr>
<tr>
<td>5. Electronic money institutions.</td>
<td>5. Public interest entities in which neither supervisory board nor audit committee were appointed.</td>
</tr>
<tr>
<td>6. Open-end pension funds and pension societies.</td>
<td>6. Credit unions.</td>
</tr>
<tr>
<td>7. Open-end investment funds, specialized open-end investment funds, closed-end investment funds which investment certificates have not been admitted to trading on a regulated market.</td>
<td></td>
</tr>
<tr>
<td>8. Entities conducting brokerage activities excluding entities engaged exclusively in taking and transferring orders to buy or sell financial instruments or in investment advisory.</td>
<td></td>
</tr>
</tbody>
</table>

Source: author’s compilation based on [Ustawa z dnia 7 maja 2009…].
In line with Art. 86, par. 4, an audit committee should be composed of minimum three members of which at least one has to meet the independence requirement and present adequate qualifications in accounting or financial auditing. In practice it should mean that in order to follow statutory requirements an audit committee should include experts presenting specific qualifications and skills, who not only are capable of risk symptoms detecting but also assure higher quality of financial statements, as well as function firmly and maintain an independent approach in contacts with a given company management executives [Zorde 2010].

The independence of one of audit committee members is an important condition defined in Art. 56, par. 3, pt. 1,4 and pt. 5 of the Act [Ustawa z dnia 7 maja 2009…]. Following this regulation an independent committee member violates impartiality and independence rule if he/she:

- is in the possession of equity shares and other property titles of an entity in the audit committee of which he/she participates, or in any other related entity,
- participated, in the period of recent three years, in bookkeeping procedures or in preparing financial statements for an entity of which audit committees he/she is a member,
- is a spouse, a relative or presents affinity to the second degree of kinship in a straight line, or is related as the result of performed care, custody or guardianship with a person acting as a member of supervisory, management or administration units of an entity the audit committee of which he/she is a member.

The requirements in this matter are not identical with other regulations of both mandatory and non-mandatory nature.

In accordance with the European Commission recommendation of 15th February 2005 on the role of non-executive directors, or supervisory board members of listed companies and the (supervisory) board committee to which Best Practices of WSE Listed Companies refer [Uchwała Rady Giełdy… 2012], at least two supervisory board members should meet the criteria of independence from the company and entities bearing any significant connection with the company. An important element of independence is also manifested by the absence of major shares or commercial relations with the company personally, as an owner, or an employee of an entity involved in business relations with the company. These regulations, however, allow an audit committee member to have the right to exercise up to 5% of the total number of votes at the general meeting of shareholders, whereas Polish legislation refers to the ownership of even one share of a company in which the particular person is an audit committee member, as violating the independence rule.

The requirement of at least one audit committee member having adequate qualifications in accounting or financial audit has also been set forth in the Act [Ustawa z dnia 7 maja 2009…], however, it does not specify the type and scope of such requirements. Therefore, it seems justified to take advantage of the provisions put before an audit committee and covered by the Audit Committee Best Practices [Dobre praktyki… 2010] which determine as follows:
1) each audit committee member, at the time of appointment, should present adequate knowledge in the field of finance at the level allowing both understanding and interpreting financial statements, whereas an audit committee chairmen should have sufficient qualifications in accounting and financial audit;

2) in the situation when an audit committee has not been appointed by a supervisory board and its tasks are distributed among all board members, the role of a chairman is played by an independent board member presenting adequate qualifications in accounting or financial audit, however, such role should not be performed by the supervisory board chairman;

3) the requirement of presenting adequate qualifications in accounting and financial audit is considered to be met if a supervisory board member presents substantial experience in finance management of commercial companies, internal audit or financial statements audit, and additionally:
   a) has obtained the title of a statutory auditor or an equivalent certificate of an international recognition, or
   b) has an academic title in accounting, financial audit, or
   c) presents a long-standing experience at the position of Chief Financial Officer in public companies or experience in working as an audit committee member in such companies;

4) audit committee members identify their training needs and take advantage of respective education forms in order to continuously improve their knowledge of the changing legal regulations relevant to the company regarding financial reporting, internal control and risk management.

3. Tasks of an audit committee

In accordance with Art. 86, par. 7 of the Act on financial audit [Ustawa z dnia 7 maja 2009...] the tasks of an audit committee include in particular:

1) monitoring of financial reporting processes,

2) monitoring of internal control systems efficiency, internal audit and risk management,

3) monitoring of the financial audit procedures implementation,

4) monitoring of a statutory auditor independence and an entity authorized to perform financial statements auditing.

Within the framework of particular oversight areas an audit committee can carry out an extensive range of activities. Their examples have been presented in Table 2.

Apart from the four aforementioned basic tasks to be performed by an audit committee its members also have to monitor mergers and acquisitions of capital companies.

The basic objective of an audit committee appointment is to provide support for supervisory board as the statutory body of the company in performing controlling
Audit committee functioning in public interest entities

4. Functioning of an audit committee – conclusions

The functioning of an audit committee represents one of the leading topics discussed in relation to corporate governance system. Effective and efficient functioning of these committees is perceived as an opportunity for upgrading the supervision quality of tasks performed by a supervisory board. In spite of short history these committees and supervising duties. An audit committee should also play the role of the main contact point for statutory auditors and internal auditors, as well as liaise with the supervisory board.

Table 2. The examples of tasks carried out by an audit committee in particular oversight areas

<table>
<thead>
<tr>
<th>Oversight area</th>
<th>Possible activities</th>
</tr>
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| Financial reporting                                 | – monitoring financial information reliability,  
– analysis of methods used in significant, abnormal transactions,  
– timeliness control of particular financial reporting stages,  
– verification of financial reporting assessment results and the key control procedures carried out by management and suggested corrective measures,  
– monitoring of vital changes in financial reporting processes. |
| The system of internal control, internal audit and risk management | – oversight of internal control efficiency system,  
– obtaining detailed information from management staff, an independent auditor, internal audit department and financial department management, regarding: auditing operations, communication and monitoring,  
– review of the results of an internal control system functioning and internal audit taking into account comments and recommendations of an independent auditor,  
– obtaining information from management about an increased exposure to particular risk, information about risk identification and monitoring, the assessment of steps undertaken by management in order to reduce such risk. |
| Performing financial audit activities               | – ensuring communication possibilities between a statutory auditor, internal auditor and supervisory board,  
– oversight of the areas indicated by a statutory auditor during an audit as particularly sensitive to risk,  
– consulting, with a statutory auditor, all issues related to bookkeeping disclosures and presenting abnormal economic events in a financial statement,  
– discussing, with a statutory auditor, all encountered difficulties posed by management staff while performing an audit. |
| Independence of a statutory auditor and an entity authorized to perform financial auditing | – recommending, to the supervisory board or other supervisory authority of an entity authorized to carry out audits of financial statements, to perform financial audit of an entity taking into account, among others, the requirement of statutory auditor independence and impartiality,  
– accepting all audit and non-audit type of services rendered by entities authorized to audit financial statements, as well as other entities. |

Source: author’s compilation based on [Rekomendacje... 2010].
represent a common component of supervisory boards in many countries. American analyses confirm, e.g., that improved audit committee operations in American companies resulted in fewer errors in financial reporting. On the other hand, Korean studies illustrate that, e.g., higher corporate governance standards (including these referring to audit committees) had positive impact on these companies’ share prices.

The identification of both efficiency and effectiveness of an audit committee functioning is very difficult owing to the absence of clear and measurable assessment criteria. The studies covering developed capital markets are based on analysing such characteristics of an audit committee as its: composition, independence, knowledge and experience, efficiency, impact opportunities, obligations and responsibility, as well as the relationship between the supervisory board characteristics and profit manipulation or financial irregularities [Cieślak et al. 2011, p. 64].

Following the research conducted on advanced financial markets it may be concluded that audit committee efficiency is mainly influenced by the following factors [Cieślak et al. 2011, p. 64]:
- the composition of an audit committee,
- powers specified in committee functioning regulations,
- knowledge and experience in financial reporting presented by audit committee members, and
- their involvement in committee operations.

These studies provided information about the manner of audit committee functioning in different entities, however, owing to the absence of particular factors impact identification it turned out impossible to determine the effectiveness and efficiency assessment of particular audit committees functioning, as well as providing adequate comparative analyses [Sawicki 2012, p. 174].

The observations regarding current audit committees functioning, as well as their evolution directions in Poland, were presented in PwC report, prepared in cooperation with The Polish Association of Listed Companies and KomitetyAudytu.pl portal, entitled: “Audit Committees in Poland in 2011” [Komitety audytu… 2011].

The conducted research allows for the following conclusions.

1. In practice, differences in the quality of audit committee functioning are quite noticeable. On the one hand, there are committees which perform their tasks in an active and professional manner, in line with the best global practices, on the other, however, there formally exist committees which are either too passive in executing their duties or carry out the set goals inadequately.

2. The vital role is played by audit committee members’ qualifications. In this matter positive changes can be observed, confirming professional functioning of audit committees. However, in case of many audit committees the number of adequate experts willing to become their members is still insufficient. The underlying reason is not only related to high requirements and extensive experience, but also to inadequate remuneration of supervisory board members for their additional tasks carried out within the framework of audit committee operations.
3. Committees are becoming more and more aware of the role played in performing their tasks by an internal and external auditor which results in more frequent committee interactions, as well as the awareness of the need to improve communication with a statutory auditor and the head of internal audit.

4. The scope of powers defined in committee regulations is being extended and their work organization is improving. However, there still exist such committees which do not meet all expected statutory tasks. Most of them concentrate mainly on two areas: oversight and financial reporting and also the appointment of a statutory auditor, whereas the involvement in supervising risk management systems, internal audit, internal auditor and tax reporting is visibly less intensive.

5. There is a large disproportion in carrying out audit committee tasks by companies having their own audit committees comparing to those in which committee tasks are performed by the entire supervisory board. This results, e.g., from different time frame commitment. Additionally, 1/3 of supervisory boards, which did not appoint an audit committee, do not monitor financial audit operations or check the independence of a statutory auditor and also devote too little time to these tasks.

To sum up the above conclusions it has to be emphasized that positive trends in audit committee functioning can indeed be observed, which confirms their growing professionalisms. However, the quality of tasks assigned to them still persists on an insufficient and unsatisfactory level.

Nevertheless, the conducted analysis proves that although slowly but gradually the evolution of audit committees does occur – from a body perceived as an institution imposed by the statutory requirement towards the role of an important component in the system of risk assessment in an enterprise.

The economic environment in which Polish entrepreneurs will have to function in the coming years will influence the growing interest in the instruments used to make financial issues more transparent, to improve risk management quality and internal control reliability, among both shareholders and management boards. This is the role to be played by audit committees. Additionally, the scope of their activities will keep extending in case of these entities in which it used to be limited, while their establishment will occur in the areas where, so far, they did not exist and result from the actual needs represented by shareholders and supervisory boards, rather than statutory requirements.

It is also vital to undertake further legislative steps aimed at the elimination of inconsistencies with the EU requirements. Such changes should influence larger popularity of audit committees establishment as well as their functioning quality.

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FUNKCJONOWANIE KOMITETU AUDYTU W JEDNOSTKACH ZAINTERESOWANIA PUBLICZNEGO – STAN OBECNY I PERSPEKTYWY

Streszczenie: Ustawowy obowiązek tworzenia komitetu audytu w jednostkach zainteresowania publicznego wynika z Ustawy o biegłych rewidentach z 7 maja 2009 r. Stanowi on bardzo ważny element systemu nadzoru korporacyjnego, jako gwaranta poprawności sprawozdań finansowych, właściwych relacji z biegłym rewidentem i audytem wewnętrznym. Do funkcji komitetu audytu, wynikającej z regulacji prawnych, należą więc monitorowanie systemu rachunkowości, a zwłaszcza sprawozdawczości finansowej, systemu kontroli wewnętrznnej oraz systemu zarządzania ryzykiem, a także nadzorowanie i koordynowanie prac audytorów wewnętrznych i zewnętrznych. Celem artykułu jest zatem przedstawienie istoty, roli, zadań i zasad funkcjonowania komitetu audytu, a także wskazanie problemów dotyczących oceny efektywności jego działania i kierunków ewolucji.

Słowa kluczowe: komitet audytu, jednostka zainteresowania publicznego, rewizja finansowa, sprawozdawczość finansowa.
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GRANTS FOR EMPLOYMENT OF PEOPLE WITH DISABILITIES AS THE FORM OF STATE AID AND DE MINIMIS AID

Abstract: The aim of this paper is to present grants for employment as a form of state aid and de minimis aid granted by the State Fund for Rehabilitation of Persons with Disabilities and the role played by the contribution to support the employment of people with disabilities in Poland. The author presented the form of aid and de minimis aid used to support the employment of people with disabilities and financed by the State Fund for Rehabilitation of Persons with Disabilities in the years 2008–2011 and identified the importance of subsidies in the process employment support of people with disabilities in Poland.

Keywords: state aid, de minimis aid, grants, employment, people with disabilities.

1. Introduction

State aid is generally prohibited in the European Union (EU) owing to the possibility of distorting or threatening to distort equal conditions for competition at the European Union market, as well as outside its area. The Treaty on the Functioning of the European Union (TFEU), constituting the basis for legislation in, among others, anti-subsidy policy and competition law, defines conditions for the application of state aid prohibition, as well as specifies obligatory and optional derogations from this prohibition.

In particular circumstances, following the proposal from the European Commission (EC), granting of state aid is permissible to the outermost EU regions, in sensitive sectors, as well as for the execution of other horizontal Union programmes also covering the prevention of unemployment and social exclusion resulting from serious underemployment.

In Poland the main instruments for counteracting unemployment are implemented by public employment services and financed from two major sources, i.e.: Labour Fund and, in relation to preventing unemployment of people with disabilities, the State Fund for Rehabilitation of Disabled Persons (PFRON). The applied financial

1 The European Union Official Journal dated 30.03.2010 no. C 83/91.
instruments, originating from the aforementioned sources, are covered by the state aid as well as de minimis aid.\(^2\)

The objective of the hereby paper is an attempt to identify the size and results of the applied state aid, as well as de minimis aid, in the form of grants offered by the PFRON in the period of 2009–2011 and other administrators of such means.

2. Financing labour market activities as the source of derogation from the prohibition of state aid granting

In order to identify the concept of aid granted through state resources the criteria laid down in Art. 107, item 1 of TFEU have been adopted. They define state aid as the support provided for an enterprise if it is granted by the state or originates from state resources, its provisions are more favourable than the market ones, it is of selective nature (favours a certain enterprise or enterprises and also the production of particular goods), distorts or threatens to distort competition and affects trading conditions between the EU Member States. The aforementioned conditions have to occur jointly in order to define such support in terms of state aid. If any of these conditions are not met, the phenomenon of state aid does not occur.

Among the exemptions from the general prohibition of state aid granting (Art. 107, item 3 of TFEU) the following types of aid are listed: aid facilitating regional economic development where the standard of living is abnormally low, as the support for regions featuring serious underdevelopment, to promote the execution of important projects of common European interest or to remedy serious disturbances in the economy of Member States, to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent that is contrary to the common interest, to promote culture and heritage conservation where such aid does not affect trading conditions and competition in the Union to an extent that is contrary to the common interest, as well as other categories of aid as may be specified by decision of the Council on a proposal from the European Commission.

The above listed conditional exceptions from the prohibition of state aid granting for entrepreneurs provide the basis for regional, sector-specific and horizontal aid granting.\(^3\)

The European Commission has also provided that state aid can be granted within the framework of the so-called block exemptions [Commission Regulation (EC) No 800/2008]. They refer to: regional aid; aid granted to environment protection; to research, development and innovation oriented activities; investment aid with respect to employment at small and medium-sized enterprises (SMEs); aid for starting

\(^2\) This type of aid, due to its low value, does not result in competition distortions in the EU dimension and, in fact, does not constitute State aid in accordance with its definition set forth in Art. 107, item 1 of TFEU.

\(^3\) Such division is presented by e.g.: [Pelka, Stasiak 2002; Modzelewska-Wąchal 2003; Wishlade 2003; Markquardt 2007; Choroszczak, Mikulec 2009; Hancher et al. 2012].
Grants for employment of disabled as the form of state aid and *de minimis* aid

a business by women; aid in the form of risk capital; aid for consultancy services addressed in SME sector towards the cost of participating in trade fairs; aid for trainings and workshops; for employees who suffer a particularly unfavourable situation or for people with disabilities.

The European Union legislation, referring to state aid, the incentives for employment rate growth constitute one of the vital priorities underlying common EU economic policy and are considered sufficient for the exemption of such activities from the prohibition of state aid granting. Financing labour market specific activities from the state means is carried out in the EU mainly within the framework of instruments referred to as horizontal aid. It should also be emphasized that some instruments applied for the purposes of regional aid are focused on employment and can also cover the unemployed individuals with disabilities.

3. State Fund for Rehabilitation of Disabled Persons
   as the administrator of state aid granted for employment of people with disabilities

PFRON represents the main administrator of state aid means allocated to financing the employment (and thus counteracts unemployment) of people with disabilities. The means from such earmarked Fund allocated to instruments fighting unemployment are, in fact, distributed in two ways – firstly, directly from the Fund by the functioning in its structures of the Operating System for Subsidies and Refunds, and secondly through district authorities (and in fact through district employment offices functioning in their structures).

The financial means for employment purposes, transferred directly from PFRON, to the disabled entrepreneurs and the employers of workers with disabilities are granted for employment (to cover the costs of salaries), whereas the Fund means transferred to district authorities (small portion of which also goes to regional authorities) are allocated to financing active labour market instruments, counteracting unemployment among the disabled listed in the records of district employment offices, i.e. for: creating and upgrading workstations of the disabled, providing grants for self-employment and the organization of trainings (Table 1).

Costs reimbursement for the workstation equipment of a disabled person and a grant for stating a business or agricultural activity, as well as bringing in a contribution to a social cooperative and a grant for bank credit interest taken for the continuation of business activities by the disabled entrepreneurs are covered following *de minimis* aid4

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4 In accordance with the provisions of the Commission Regulation of the European Community (EC) No 1998/2006 of 15th December 2006 on the application of the Articles 87 and 88 of the Treaty to *de minimis* aid in force since 1st January 2007, state aid not exceeding a ceiling of EUR 200 000 (EUR 100 000 in the road transport sector) granted over any period of three years does not affect trade between Member States and therefore does not fall under the Article 87(1) of the Treaty. Granting aid following *de minimis* rule is object and subject limited.
Table 1. Forms of financial support for entrepreneurs from the State Fund for Rehabilitation of Disabled Persons means in the period 2008–2012

<table>
<thead>
<tr>
<th>No.</th>
<th>Aid form</th>
<th>Basis for aid granting admissibility</th>
<th>Granting institution</th>
<th>Aid beneficiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Costs reimbursement of workstation equipment for the disabled person</td>
<td><em>de minimis</em> aid</td>
<td>District Head</td>
<td>employers of the disabled workers, including sheltered workshops</td>
</tr>
<tr>
<td>2</td>
<td>Grant for starting a business or agricultural activity and a contribution to a social cooperative</td>
<td><em>de minimis</em> aid</td>
<td>District Head</td>
<td>an unemployed disabled person starting a business</td>
</tr>
<tr>
<td>3</td>
<td>Refund of social security contributions</td>
<td><em>de minimis</em> aid</td>
<td>PFRON</td>
<td>an unemployed disabled person running a business</td>
</tr>
<tr>
<td>4</td>
<td>Refund of interest on bank credit</td>
<td><em>de minimis</em> aid</td>
<td>District Head</td>
<td>an unemployed disabled person running a business who has taken a bank credit for this purpose</td>
</tr>
<tr>
<td>5</td>
<td>Loan for the protection of existing workplaces</td>
<td><em>de minimis</em> aid</td>
<td>Regional Head</td>
<td>a sheltered workshop</td>
</tr>
<tr>
<td>6</td>
<td>Refund of social security contributions</td>
<td>employment aid</td>
<td>PFRON</td>
<td>an employer of less then 25 workers calculated per full-time employment</td>
</tr>
<tr>
<td>7</td>
<td>Refund of social security contributions</td>
<td>employment aid</td>
<td>PFRON</td>
<td>an employer hiring at least 25 workers with the total employment rate of the disabled at the level of at least 6%</td>
</tr>
<tr>
<td>8</td>
<td>Refund of social security contributions</td>
<td>employment aid</td>
<td>PFRON</td>
<td>sheltered workshop</td>
</tr>
<tr>
<td>9</td>
<td>Salary-specific grants</td>
<td>employment aid</td>
<td>PFRON</td>
<td>an employer hiring people with disabilities, including a sheltered workshop</td>
</tr>
<tr>
<td>10</td>
<td>Refund of costs for hiring workers assisting a disabled employee (assistant to the disabled person)</td>
<td>employment aid</td>
<td>District Head</td>
<td>an employer of people with disabilities, including a sheltered workshop</td>
</tr>
<tr>
<td>11</td>
<td>Refund of costs incurred by an employer for trainings of a disabled employee</td>
<td>training aid</td>
<td>District Head</td>
<td>an employer hiring and training people with disabilities, including a sheltered workshop</td>
</tr>
</tbody>
</table>

Source: [Koza 2009].

rules, implemented by District Heads and financed from PFRON means. The source of exemption from the prohibition of state aid granting, with regard to the presented aid instruments, is the aid granted for the employment and trainings within the framework of block exemptions and aimed at the implementation of horizontal goals.
In the period of 2008–2011 at the open (unsheltered) labour market an interest in the state aid from PFRON means was systematically growing. In this period employers were granted the total of PLN 1884 million (Figure 1) in the form of employment-specific aid. The number of entrepreneurs who received state aid in the form of grants for employment doubled (from 9 thousand in 2008 up to 19 thousand in 2011) in the discussed period of time.

![Figure 1. Amounts of state aid in the form of grants for employment provided by PFRON and the number of beneficiaries at the open labour market in Poland in the period of 2008–2011](image)

Source: data of PFRON.

The number of people with disabilities covered by employment grants was increasing at a slightly slower pace. In 2008 64 thousand disabled employees were covered with employment specific grants, whereas in 2011 this number grew to the level of 106 thousand.

In 2008 an average state aid granted to an employer at an open labour market amounted to PLN 21 thousand, whereas calculated per one disabled person an average state aid equalled PLN 2.984 thousand. In 2011 these values were definitely higher and presented, respectively, the level of PLN 35 thousand and PLN 6.160 thousand.

Employers functioning at the sheltered labour market (mainly sheltered workshops) received an extensively higher state aid, comparing to the other employers, calculated both per one employer and an average employed disabled person (Figure 2).

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5 Open labour market includes employers do not offer special working conditions for people with disabilities.

6 Sheltered employment consists of different workshops where people with diverse levels of disability are offered employment opportunities.

7 This can be explained by higher organizational requirements to be faced by such employers.
In 2008 the employers functioning at the sheltered labour market received state aid in the form of grants for employment in the amount of PLN 1.4 million. Therefore, an average employer was granted aid, for this purpose, from PFRON means in the amount of PLN 605 thousand, which was PLN 5,455 thousand per average employed person with disability. In the subsequent years no significant changes were recorded regarding the number of aid beneficiaries and people covered by the grant. In 2011 employers running businesses at sheltered labour market received state aid in the form of grants for employment of the disabled in the total amount of almost PLN 2.1 billion, which, per one employer, presented the level of PLN 975 thousand on average, and per one disabled employee equalled PLN 7,443 thousand in the respective year.

### 4. State Fund for Rehabilitation of Disabled Persons as the source of grants for employment within the framework of *de minimis* aid

In the period of 2008–2011 District Heads granted *de minimis* aid in the total amount of almost PLN 146.5 million (Table 2). One-time grants to start a business by the disabled person amounting to PLN 144.5 million constituted a large part of such aid. The remaining *de minimis* aid granted by District Heads covered contributions to social cooperatives – PLN 1.5 million and the refund of interests on credits and loans taken in banks in relation to the performed business operations – PLN 0.5 million.
Grants for employment of disabled as the form of state aid and *de minimis* aid

**Table 2.** Grants for employment within the framework of *de minimis* aid in Poland in the period of 2008–2011

<table>
<thead>
<tr>
<th>No</th>
<th>Specification</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Aid amount (thousands PLN)</td>
<td>Number of beneficiaries</td>
<td>Aid amount (thousands PLN)</td>
<td>Number of beneficiaries</td>
<td>Aid amount (thousands PLN)</td>
</tr>
<tr>
<td>1</td>
<td>Grant for starting a business or a contribution to social cooperative including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) For starting a business</td>
<td>53 159.8</td>
<td>1 664</td>
<td>37 961.1</td>
<td>1 320</td>
</tr>
<tr>
<td></td>
<td>b) For a contribution to social cooperative</td>
<td>498.7</td>
<td>19</td>
<td>106.0</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Refund of interest on a bank credit</td>
<td>181.0</td>
<td>47</td>
<td>118.6</td>
<td>42</td>
</tr>
</tbody>
</table>

*Żródło:* author’s compilation based on data of PFRON.

The total number of *de minimis* aid beneficiaries granted in the period of 2008–2011 by District Heads reached the level of 5206 cases. At this point it should be added that some entrepreneurs took advantage of *de minimis* aid for a few reasons, e.g.: an employment-specific grant to be followed by the refund of interest on credits and loans, therefore the number of beneficiaries is slightly larger than the actual number of people covered by *de minimis* aid for different reasons.

**5. Final remarks**

In the period of 2008–2011 state aid and *de minimis* aid were offered in the form of grants aimed at the support of the disabled people employment in the total amount of almost PLN 9.8 billion. The structure of employment-specific aid granted, in the period of 2008–2011, was significantly dominated by grants within the framework of state aid for entrepreneurs (mainly functioning in sheltered conditions). The grants offered following *de minimis* rule constituted only slightly over 1% of the total amount of grants for employment financed by PFRON.

The analysis of granted amounts and the number of state and *de minimis* aid beneficiaries allows for concluding that in the situation of an ongoing increase in the amounts and number of grants within the framework of state aid *de minimis* aid was systematically reduced. The diversified pace of granted amounts and the number of state aid beneficiaries increase between open and sheltered labour market was quite visible.
The number of employers at an open labour market, reporting employees to be covered by employment-specific grants, was rapidly growing and doubled during the period discussed in the hereby analysis. The pace of employment people with disabilities growth, who were reported by their employers as addressees of such grants, within the framework of state aid, was much slower. This confirms the fact that the average employment of people with disabilities, hired by a single employer at an open labour market and covered by grants assigned to employment, was decreasing.

As far as employers functioning in sheltered conditions are concerned, changes related to disabled workers employment covered by employment grants, as well as the amounts of grants received, were relatively small at the absence of any significant tendency. However, in the period of 2010–2011, a noticeable decrease of employers functioning in sheltered labour market conditions and people covered by employment oriented grants and also employed by these employers, raises concerns. The main reason of such situation was the resignation from sheltered workshop status by a certain number of employers and their transfer to an open labour market. Therefore it can be assumed that the aid granted (larger than in case of that offered to employers at an open labour market) did not provide sufficient compensation for the outlays which had to be invested in order to maintain the status of an employer operating in sheltered labour market conditions.  

The analysis of data regarding de minimis aid values in the form of grants for employment allows for concluding that local governments, obtaining gradually decreasing amounts from PFRON for the implementation of occupational rehabilitation tasks aimed at people with disabilities, were allocating systematically reduced amounts of de minimis aid. Therefore, it is true to observe that local governments were not capable of supplementing, from their own means, the continuously decreasing amounts from PFRON grants in order to implement the statutory tasks for the benefit of the disabled. It resulted, among others, in reducing grants for self-employment of unemployed people with disabilities and therefore the number of businesses started by the disabled had a decreasing tendency.

In the opinion of the author the application of exemptions from the prohibition of state and de minimis aid granting, aimed at the support of socially and economically disadvantaged groups, is fully founded. People with disabilities, who are not capable of competing with healthy people at labour market and deprived of state aid, will suffer gradual marginalization. The granted state aid and especially direct

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8 In 2012 these employers who wanted to maintain the status of a sheltered workshop had to increase the percentage of people with disabilities employment. Additionally, a multi-stage gradual reduction of grants for the employment of people with the smallest disability level, in order to increase grants for the most disabled individuals requiring much more cost-generating work conditions, was implemented.
employment-specific grants, in general, play the motivating role for employers trying to cut employment costs. The visible differences in employment of the disabled, at both sheltered and unsheltered labour markets, illustrate that the requirements to be faced by employers functioning in sheltered labour market conditions are not sufficiently compensated by the state aid offered to them. Perhaps the solution is to divide more clearly the functions played by employers at sheltered and unsheltered labour markets with the reservation that sheltered labour market is to be opened only for the employment and rehabilitation of the most disabled individuals (people with severe and moderate disability), whereas an open labour market should take over the least disabled individuals requiring much smaller costs related to their employment. In fact, employers at an open labour market hire people with severe disabilities (the amount of grant for this purpose is the highest) not being able to provide either adequate conditions for their employment or professional medical care. This results in unequal competition between entrepreneurs functioning in sheltered and unsheltered labour market conditions within the framework of which open labour market employers, offering much worse conditions of work, at relatively smaller outlays receive a relatively higher state aid.

References

DOTACJE DO ZATRUDNIENIA OSÓB NIEPEŁNOSPRAWNYCH JAKO FORMA POMOCY PUBLICZNEJ I POMOCY **DE MINIMIS**

**Streszczenie:** Celem artykułu jest przedstawienie dotacji na zatrudnienie jako formy pomocy publicznej i pomocy *de minimis* udzielanej ze środków Państwowego Funduszu Rehabilitacji Osób Niepełnosprawnych oraz roli, jaką odgrywa we wsparciu zatrudnienia osób niepełnosprawnych w Polsce. Autor w niniejszym artykule zaprezentował formy pomocy publicznej i pomocy *de minimis* udzielanych ze środków Państwowego Funduszu Rehabilitacji Osób Niepełnosprawnych, stosowanych jako wsparcie zatrudnienia osób niepełnosprawnych w latach 2008–2011, oraz określił znaczenie dotacji do zatrudnienia w strukturze udzielanej pomocy publicznej i pomocy *de minimis* ze środków tego Funduszu.

**Słowa kluczowe:** pomoc publiczna, pomoc *de minimis*, dotacje, zatrudnienie, osoby niepełnosprawne.
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POLISH SOCIALLY RESPONSIBLE INVESTMENT FUNDS – INVESTMENT POLICY AND EFFICIENCY

Abstract: The objective of the paper is to discuss the essence of SRI funds and to analyse their investment policy. The analysis will be conducted based on the information published in their information prospectuses and also on the basis of data included in financial reports prepared by these funds. The study will be supplemented by the assessment of national socially responsible investment funds efficiency covering their rates of return comparison against interest rates offered by the funds functioning outside SRI, but featuring a similar investment policy. The analysis covers actively functioning national investment funds valuating units in PLN.

Keywords: socially responsible investment funds, investment policy, effectiveness.

1. Introduction

The recently occurring events in global economy, environmental disasters, previous scandals involving falsified financial statements, or scandals related to transferring businesses to countries offering cheap labour force and, at the same time, disregarding workers’ rights result in frequent comments referring to Corporate Social Responsibility. CSR idea has been implemented on financial markets by means of Socially Responsible Investments (SRI) [Dziawgo 2010, p. 16]. One of the most common forms, underlying SRI concept implementation on financial markets, is represented by socially responsible investment funds.

The objective of the hereby paper is to discuss the essence of SRI funds and to analyse their investment policy. The analysis will be performed based on the information published in their information prospectuses and also on the basis of data included in financial reports prepared by these funds. The study will be supplemented by the assessment of national socially responsible investment funds efficiency covering their rates of return comparison against interest rates offered by the funds functioning outside SRI, but featuring a similar investment policy. The analysis covers actively functioning national investment funds valuating units in PLN.
2. The idea of SRI funds

Socially responsible investment funds, constituting the subject matter of the hereby paper, are included in the group of socially responsible financial products which, according to the European Economic and Social Committee, are regarded as savings products, investment products (collective investment undertakings; pensions and insurance, thematic funds) and credit finance instruments and financial support mechanisms the concept of which covers environmental, social or good governance criteria and which, under no circumstances, disregard crucial problems of risk and profitability [Opinion of the European… 2011, p. 21].

In view of the above a socially responsible investment fund is referred to as the one which managers, in the course of making investment decisions, take advantage of ESG criteria (environmental, social and good governance criteria), but are also sensitive to risk and profitability issues. The major difference between SRI fund and a classical investment fund consists in the fact that in case of the first one both managers and investors take into account how profits on investments are generated. If ESG criteria are implemented, SRI funds offer a certain added value for environment, society and good business practice establishment.

Owing to the multitude of criteria and investment suggestions applied by the broadly understood SRI, and also due to the absence of a clear definition in literature reference sources identifying these funds, the following funds are listed among them: ethical funds, environmental (green) funds, religious and sustainability funds. SRI funds may be represented by equity funds, and these are most often sector oriented funds, or take the form of bond and hybrid funds [Koellner et al. 2005, p. 55].

In Poland an attempt to classify SRI funds was undertaken by the creators of responsible-investment online portal. According to them SRI fund should concurrently meet the following criteria:

1) provide the description, in its policy, that the underlying investments are made in ethical, environmental projects, in companies implementing high social responsibility standards or these featuring operations generally recognized as responsible;

2) the fund name should include elements of the above-mentioned policy – e.g. ethical, green, medicine related [http://www.odpowiedzialne-inwestowanie.pl].

3. Investment policy of Polish SRI funds

Having considered the above-listed criteria, as well as investment policy of national funds, 8 discussed below funds (sub-funds) can be referred to as SRI ones.

1. Arka BZ WBK Energii represents foreign equity energy sub-fund (AKZ EN), which invests at least 66% of the sub-fund assets in equities and similar instruments issued by entities which focus, in their operations, on e.g.: production, transmission, distribution, import and export of electric energy, mainly originating
from coal, crude oil, gas, wind, biomass, the sun and uranium [Information prospectus Arka..., p. 74].

As of 30th June 2012 the sub-fund covered instruments issued by entities from 16 countries. Its major part was made up of equity instruments (78.94%), including those issued by American entities (31.63%), Chinese (10.00%), British (9.27%) and Italian (9.24%). The sub-fund invested as little as 1.69% of its assets on Polish market [Financial statement Arka..., pp. 3–5].

2. Investor Zmian Klimatycznych is the foreign equity other sector sub-fund (AKZ SK). Its investment objective is carried out by investing from 70 to 100% assets value in DWS Invest Clean Tech foreign sub-fund units of which at least 70% assets are invested in equity instruments characteristic for companies functioning mainly in business areas adjusted to limiting or reducing climatic changes and their effects [Information prospectus Investor..., p. 44].

As of 30th June 2012 the investment portfolio of DWS Invest Clean Tech fund covered equity instruments of entities from 12 countries, among which the majority of entities originated from USA (37.40%), Germany (7.80%), Japan (7.30%), South Korea (7.20%) and Switzerland (6.70%) [Information card Investor... 2013, p. 1].

3. PZU Energia Medycyna Ekologia also represents a foreign equity other sector sub-fund (AKZ_SK). This sub-fund invests from 50 to 100% of its assets in domestic and foreign equity securities issued by companies which operate in energy, health care and natural environment protection sectors (companies producing energy from renewable sources, companies involved in recycling) [Information prospectus PZU..., p. 70].

In the first half of 2012 the sub-fund was present on 16 markets. The largest part of investment portfolio was made up of equity instruments – 85.43%, including these issued by American (27.36%), Polish (20.37%), Swiss (8.26%), German (6.72%) entities and also these from Great Britain (5.82%) [Semi-annual unit..., pp. 7–11].

4. SKOK FIO Etyczny 2 represents the first Polish ethical investment fund functioning as foreign equity advanced Europe sub-fund (AKZ_EU). From 60 to 100% of this fund assets are invested in equities offered to the public in Poland, or other European Union member states, entities engaged in activities which cannot result in negative effects for human natural environment or generate negative social effects.

Additionally, this fund’s assets are not invested in:

1) securities issued by entities which perform illegal activities in the country of the issuing entity residence, including also international conventions and international agreements in force on the territory of this country;

2) securities issued by entities the primary activity of which is: manufacturing weapons and ammunition, manufacturing tobacco products or spirituous beverages, running gaming casinos or gaming rooms, steel production using open-hearth furnaces, aluminium production using Soderberg electrolysis;
3) securities issued by entities which obtain profits from: gambling, running gaming casinos, money laundering, pornography, radioactive waste production or spreading [Information prospectus SKOK FIO Etyczny 2..., p. 10, 29].

As of 30th June 2012 the fund was in the possession of equity instruments (63.34%) issued by companies from five countries. Among its assets the vast majority was issued by domestic entities – 48.98%. The remaining assets were invested in Hungary (6.92%), the Czech Republic (4.38%) and Austria (2.60%) [Financial statement SKOK FIO Etyczny 2..., pp. 7–9].

5. PKO Biotechnologii i Innowacji represents a foreign equity other sector sub-fund (AKZ_XX) which invests min. 30% of its assets in equity instruments issued by companies which focus on research and development activities in natural and technical sciences, including chemical, electronic, medical, pharmaceutical, as well as bio- and nanotechnology sectors [Information prospectus PKO..., p. 99].

At the end of the first half of 2012 the sub-fund was present at 13 financial markets. The largest part of its assets was made up of equity instruments – 79.17%, including these issued by entities from Poland (30.32%), the U.S. (20.40%), Russia (8.71%), Switzerland (5.48%) and the Czech Republic (4.22%) [Unit financial..., pp. 4–8].

6. SKOK FIO Etyczny 1 represents bond aggregate PLN sub-fund of both treasury and commercial instruments (PDP_UN). Minimum 60% of the fund assets are invested in bonds and money market instruments. This fund, as well as SKOK FIO Etyczny 2, applies negative screening strategy and its assets cannot be invested in the same instruments as the ones listed in SKOK FIO Etyczny 2 fund statute [Information prospectus SKOK FIO Etyczny 1..., pp. 10, 11, 13].

As of 30th June 2012 as many as 77.42% of this fund’s assets were invested in Polish debt securities, 11.89% in Swedish, while 7.52% were invested on the Slovak market [Financial statement of SKOK FIO Etyczny 1..., pp. 6, 7].

7. SubGO Fund Energia 2 FIZ represents the first closed-end investment fund the investment policy of which is focused on projects related to renewable energy sources. This fund is included in the group of foreign mixed other funds (MIZ_XX). The majority of investments go to equity instruments of special purpose entities which are or are planning to be engaged in projects based on green energy and mainly projects involving wind, photovoltaic and water farms [Information card subGo..., p. 1].

8. Conergy greeENERGY FIZAN represents the first Polish closed-end private equity investment fund (ANP_UN) the investment policy of which is focused on renewable energy. Investments are performed on private equity market by means of equity instruments and bond equities. The spectrum of potential investments is, among others, made up of wind power plants, water power plants, biogas power plants, biomass power plants, solar power plants, geothermal installations [http://www.ideatfi.pl/idea-greenenergy.html].
Having considered the above presented information it can be noticed that the majority (six out of eight) national SRI funds represent open-end funds and, therefore, they are generally available for a wider group of investors. The largest group among SRI funds consists of foreign equity funds (five out of eight), however, this group is not homogeneous since it covers both the funds focused only on one sector or functioning in a few sectors concurrently. The remaining SRI funds are represented by the following: bond fund, mixed fund or private equity fund. Only two national SRI funds use the adjective “ethical” in their name, while four include such phrases as “ecology,” “climate,” “green energy” in their names. Moreover, only two SRI funds clearly define, in their investment policy, the application of negative screening strategy.

Additionally, the analysis of investment portfolios shows the following:
1. Arka BZ WBK Energii and PKO Biotechnologii i Innowacji Globalny invest only part of their assets in accordance with the principles of responsible investing. Besides, in case of these funds it can be observed that the application of SRI strategy represents rather the accepted investment policy side effect than an end in itself.
2. Investor Zmian Klimatycznych fund is the typical example of fund of funds.
3. Both closed-end funds (subGO Fund Energia 2 and Cinerga green ENERGY) are exclusively focused on investments in renewable energy sources.
4. Polish SRI funds are most frequently interested in environment protection and medicine-oriented projects.
5. Arka BZ WBK Energii and PZU Energia Medycyna Ekologia are included among the funds most active on foreign markets since their investment portfolios cover instruments issued by entities originating from 16 countries.
6. American, Swiss and Polish markets were of most interest for SRI funds managers.
7. Funds managed by TFI SKOK were characterized by the largest share of domestic financial instruments.

4. The efficiency of Polish SRI funds

In order to evaluate socially responsible investment funds efficiency 12-, 24-, 36-, 48- and 60-month rates of return, set for the day of 15th April 2013, were presented. Additionally, the analysis was supplemented by indicating a given fund position at the background of funds featuring a similar investment policy and therefore in column II:
1) in rows 1–5 the position of particular funds was presented at the background of all foreign equity funds,
2) in row 6 at the background of all bond funds,
3) in row 7 at the background of all foreign mixed funds.
Columns VII–XI illustrate positions of particular funds in their groups, presented in column III.


Table 1. The efficiency of Polish socially responsible investment funds

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of the fund (position in the group for the 12-month period)</th>
<th>Group</th>
<th>Unit/certificate value (in PLN)</th>
<th>Rates of return as of 15 April 2013 r. (in %)</th>
<th>Position in the group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>max</td>
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<td>1</td>
<td>Arka BZ WBK Energii (55/77)</td>
<td>AKZ_EN</td>
<td>50.00</td>
<td>20.33</td>
<td>–16.88</td>
</tr>
<tr>
<td>3</td>
<td>PZU Energia Medycyna Ekologia (17/77)</td>
<td>AKZ_SK</td>
<td>77.78</td>
<td>44.74</td>
<td>77.78</td>
</tr>
<tr>
<td>4</td>
<td>PKO Biotechnologii i Innovacji Globalny (37/77)</td>
<td>AKZ_XX</td>
<td>121.58</td>
<td>98.26</td>
<td>116.89</td>
</tr>
<tr>
<td>5</td>
<td>SKOK FIO Etyczny 2 (25/77)</td>
<td>AKZ_EU</td>
<td>111.21</td>
<td>80.55</td>
<td>92.6</td>
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<td>6</td>
<td>SKOK FIO Etyczny 1 (34/48)</td>
<td>PDP_UN</td>
<td>118.4</td>
<td>106.29</td>
<td>118.45</td>
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<td>7</td>
<td>SubGO Fund Energia 2 (33/34)</td>
<td>MIZ_XX</td>
<td>1.10</td>
<td>0.82</td>
<td>0.82</td>
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<td>8</td>
<td>Conerenga greenENERGY FIZ AN</td>
<td>ANP_UN</td>
<td>135.01</td>
<td>100</td>
<td>35.01</td>
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* Due to a shorter period of the fund functioning return rates were presented since the beginning of its functioning.


The analysis of SRI funds rates of return in particular time periods indicates as follows:

1. In the recent 12 months, at the background of all foreign equity funds, PZU Medycyna Energia Ekologia fund obtained best results and was ranked 17th among 77 national foreign equity funds. The only functioning SRI bond fund was placed as 34th in this group consisting of 48 funds. SubGo Fund Energia 2 had very poor results as compared to the remaining funds in this group.
2. Among all SRI actively operating national funds PZU Medycyna Energia Ekologia fund also presented the best results, which was influenced by a more extensive sector-oriented diversification of its investment portfolio, as well as its larger involvement in medical sector. This fund was also characterized by the highest rates of return in the recent two and three years and it is worth emphasizing that in the group of foreign equity funds it was ranked at high positions. Its results were also influenced by its higher involvement on Polish market and therefore its assets value was, to a lesser extent, dependant on the złoty exchange rate.

3. Both ethical funds presented poor results at the background of their groups, however, in the previous year their results were relatively good, which also resulted from their high involvement on Polish market.

4. Both closed-end SRI funds, on the other hand, had different results from each other. The assets of the first one decreased in the period of recent 12 months by 14.86%, while in case of the second one they increased by 13.68%, in spite of the fact that their investment policy was similar.

   It is, however, obvious that the comparison of return rates featuring such diversified fund groups, especially in short periods, as well as in the recent turbulent times, should by no means constitute the basis for drawing final and definite collusions. However, it has to be observed that, from the perspective of their efficiency, Polish SRI funds cannot be referred to as “investor friendly” ones. Moreover, having considered the fact that Polish investors, while selecting an adequate fund, are more frequently guided by historical rates of return, one can assume that it will be manifested by lower interest in these funds on the part of investors.

5. Final remarks

Socially responsible investment funds do not constitute any significant part of Polish market investment funds. Their market share, measured by their net assets value at the end of March 2013, was responsible for as little as 0.22% (340 million PLN) which, on the one hand, confirms very little interest in SRI funds by investment fund companies and investors and, on the other, illustrates that this segment of investment fund market is characterized by an extensive developmental potential, especially if it is approached from the perspective of developed investment fund markets.

   Currently, an extensive diversification of Polish SRI funds constitutes the major barrier for their development which is confirmed by these funds presence in different fund groups regarding their investment policy. This also makes any comparisons of their offer and the achieved investment outcome difficult. If there existed a homogeneous group of SRI funds, it would be much easier for investment fund companies to address their offer to potential clients. Additionally, this could encourage more investment fund companies to initiate SRI funds and would probably result in larger coverage of SRI funds in the media.
The situation of SRI funds is even more difficult owing to the fact that their vast majority carry out investments at foreign markets, which for many investors represents an unacceptable barrier due to problems in an ongoing update of investment analysis and underlying foreign exchange risk. Finally, investments in SRI funds are not supported by their results, which for the majority of investors constitutes the crucial criterion in the process of investment selection.

Nevertheless, the initiated trend should be regarded as a positive phenomenon and the growing interest of selected funds in the activities focused on environment protection, including renewable energy sources oriented projects, should be emphasized which, day by day, as the result of enforcing adequate legislation will keep gaining due significance.

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Streszczenie: Celem niniejszego artykułu jest przybliżenie istoty funduszy inwestycyjnych odpowiedzialnych społecznie oraz analiza stosowanej przez nie polityki inwestycyjnej. Analiza ta zostanie przeprowadzona na podstawie zapisów zawartych w ich prospektach informacyjnych, jak również na podstawie danych zawartych w sprawozdaniach finansowych tych funduszy. Uzupełnieniem tej analizy będzie także ocena efektywności krajowych funduszy inwestycyjnych odpowiedzialnych społecznie, w tym porównanie ich stóp zwrotu ze stopami zwrotu funduszy niezaliczanych do funduszy odpowiedzialnych społecznie, a charakteryzujących się zbliżoną polityką inwestycyjną. Do analizy wybrano aktywnie funkcjonujące krajobowe fundusze inwestycyjne wyceniające jednostki uczestnictwa w złotych polskich.

Słowa kluczowe: fundusze inwestycyjne odpowiedzialne społecznie, polityka inwestycyjna, efektywność.
Abstract: Regulatory arbitrage at the insurance market can develop as the consequence of fundamental law-making determinants in the EU (the specific nature of directives, common law and civil law), or can be related to the existing community regulations dedicated, in particular, to the insurance market (creating insurance products, supervision over insurance institutions), and can also result from regulations to take effect in the future (Solvency II). Regulatory arbitrage at the insurance (and financial) market cannot be ruled out, since wherever differences in legal restrictions occur there appear arbitrageurs who attempt to take advantage of these differences which, however, can be minimized by means of effective cooperation between the EU and national regulatory bodies, as well as the national and sectorial supervisory authorities.

Keywords: arbitrage, regulations, supervision.

1. Introduction

The EU regulations, referring to the common market functioning rules, are supposed to ensure both freedom of economic activities and their continuation, as well as create equal conditions for competition at internal markets and minimize the consequences of market imperfections. They also constitute an important policy component for the European identity construction and an attempt to cement various regulatory models in particular countries. In spite of these assumptions the Community law presents certain gaps referring to regulations, while some of its areas, related to the financial market functioning, are overregulated, which in both cases can be taken advantage of by market participants within the framework of regulatory arbitrage.

The objective of the paper is to identify and characterize the phenomenon of regulatory arbitrage at the EU insurance market and discuss a number of examples specific for this particular market.
2. The general characteristics of regulatory arbitrage phenomenon

Regulatory arbitrage refers to searching for a more attractive legal environment of the conducted activities and taking advantage of differences in the level of regulatory restrictiveness. Obviously, it is not just legislation intricacies which determine it, since meeting every regulatory requirement constitutes an expense for the regulated entity (at least a short-term one). For this reason the natural reaction of regulated entities is to investigate methods for minimizing costs and therefore the interest of an arbitrageur – less complicated and less burdensome legislation – is defined from an economic viewpoint. The condition for resorting to arbitrage is the proper scale of activities accompanied by the absence of limitations in allocating resources [Tarczyński, Mojsiewicz 2001, p. 242].

In the context of objectives underlying the regulations established for the EU financial market, the crucial issue referring to insurance sector entities is to ensure equal conditions for competition between domestic and foreign entities (seated in different member states and in the third countries) and with respect to the operations performed. This implies regulatory arbitrage presence at different levels:

- cross-sector (domestic) – using differences in the level of insurance sector activities regulation and the related ones (“at the same market but in different forms”) and results from possibilities of the performed activities formal transfer to other financial market segments, where compliance costs are the lowest;
- supra-national at the EU forum – taking advantage of differences in the country of origin legislation, or the country where the activities are currently conducted, depending on which provisions are more favourable. This type of arbitration is justified by the freedom of residence and services provision;
- supra-national in the global scale (the third countries) – using differences in regulations occurring between the EU and other regions (countries) worldwide.

While the emergence of supra-national arbitrage with reference to the third world countries is outside the scope of the EU regulators, in case of both inter-sector and supra-national arbitrage at the EU forum there are two decisive elements determining the possibility of its occurrence:

- the Community and national legislation,
- market supervision architecture and the approach of supervision authorities towards the implementation of supervision goals (regulatory powers and the applied supervision practice).

The phenomenon of regulatory arbitrage at the EU financial market is the example (unfortunately a negative one) quoted while developing regulations for other markets. “Regulations should be developed in the manner which [...] prevents the recurrence of events that have taken place on financial markets as the result of regulatory arbitrage and consisted in performing transactions in the regulatory environment which is more flexible or less restrictive regarding the system of penalties” [Proposal for a regulation...].
3. Regulatory arbitrage at the EU insurance market – examples

Theoretically regulatory arbitrage should not occur at the EU insurance market, since the idea behind the Single Insurance Market establishment in 1994 was the harmonization of regulations, its most extensive unification, as well as integration and opening equal competition opportunities for entities functioning at this market. However, the number of areas in which diversified provisions can become the basis for regulatory arbitrage is infinite. It may be influenced by law-making foundations, the existing Community insurance regulations, as well as any new regulation which by enforcing its rigid provisions, even if it not resulting in differences between countries, is, anyway, exposed to the risk of circumvention attempts by means of various, complicated legal constructions.

The EU law enactment foundations, as the determinant of regulatory arbitrage at the insurance market, are related to the fact that it is the directives which play the main regulatory role, i.e. legislative acts which are not of normative nature but just specify the particular goal to be met. It allows the executive bodies (national regulators) for the “free” choice of measures facilitating the achievement of directive objectives. Its consequence is the possibility of differences between countries, both in regulations and approaches presented by these executive bodies. The differences which are taken advantage of within the framework of arbitration may also be due to the fact that in some member states common law is in force while in others civil law, which results in diversified approaches towards legislation enforcement, e.g. with reference to directives’ provisions which use the following phrases: “if approved by adequate authorities”, “to demonstrate the validity of such actions,” “significant – insignificant,” “relevant – irrelevant” [Mérő 2008, pp. 2, 3]. As a result the European insurance market has turned into the mosaic of different legal solutions the core of which is the same (Community Directives), while particular arrangements – beyond the scope of EU regulations – differ depending on the member state [CEA 2006].

Having considered the existing Community insurance regulations, regulatory arbitrage determinants may take the form of, e.g.: barriers in starting and extending activities, supervisory and public information disclosure, ownership and control spheres, limits regarding the allowable assets, price regulations, insurance guarantee schemes or disciplinary mechanisms regarding regulations interpretation ([Giordano 2009], cited after [Jajuga 2011, p. 117]).

The absence of regulations’ harmonization, regarding capital requirements imposed on financial sector entities, may serve as the example of their unequal treatment and illustrates possibilities of inter-sector arbitration. Investors can transfer their operations from sectors featuring more stringent regulations (banking, insurance) to the related ones (investment funds) offering less restrictive legal environment. The Community law inconsistency is also manifested by unequal treatment of insurance sector entities – direct sales of insurance products carried out by their creators (insurance institutions) is not subject to the same provisions as sales
performed by intermediary agents – these gaps result in unequal conditions for the conducted operations, and even the directives referring to sales by intermediaries refer to the selling entities in a different way [Directive 2002/92/EC…], since some products and distribution channels are excluded from the directive requirements (e.g. when an agreement does not refer to life insurance and liability insurance and also when it covers a small amount of the annual premium – less than 500 euro).

The possibility of regulatory arbitrage occurrence on the insurance market may also result from the absence of complex approach to the regulated issues. Many directives should complement one another, while instead they overlap and duplicate each other resulting in ambiguities while approaching the “adequate” legal act. The provisions referring to unit-linked insurance, which are regulated by five directives referring to creators and issuers of such products and by two directives covering their sales [Communication from the Commission… 2009], can be quoted as an example. It is obvious that entities underlying such regulations take advantage of the most favourable, from their perspective, provisions.

Regulatory arbitrage may also take place as the result of inconsistent insurance guarantee schemes in force in the EU member states. The consequence of such inconsistency is manifested by purchasing insurance products featuring the most extensive guarantees. The problem of possible arbitrage and “substantive market disturbances” has already been raised by the European Commission which ordered the analysis of interdependencies between harmonization and application of systems in force in the EU and the country of origin principle after the implementation of Solvency II Directive [Insurance guarantee schemes…].

Arbitrage can also occur at the absence of regulations in some areas – for example the secondary life insurance market which is locally regulated in, among others, the United Kingdom and Austria legislation, while neither the EU common standards have been defined nor the need to establish them has been recognized. Differences in opportunities to invest in the shares of insurance funds, in case of with-profit insurance policies, result in the possibility of arbitrage also in this area. Owing to its attractiveness, resulting from high return rates, citizens of many EU countries transfer their free funds to these member states where internal legislation does not impose limits or restrictions in this matter (e.g. United Kingdom). Insurance institutions in the countries where restrictive limitations have been imposed (Poland) can only hope for the less informed local market clients and are obviously at a competitive disadvantage comparing to these member states which offer more liberal regulations.

Having considered the form of market supervision and the possible approach of national supervision authorities regarding supervision objectives implementation on the EU market, the “potential” of regulatory arbitrage is also identified by the limited capacity for mutual cooperation involving many supervisory authorities (at least one and frequently several supervisory authorities in every member state) which, however, is of greater significance in case of internationally active entities. 89
insurance groups were registered in 2011 in the European Economic Area (EEA) with respective 14 national supervisory authorities established as group supervisory authorities [EIOPA 2012]. Complex approach to the entire financial market supervision (the establishment of one supervisory authority) offers a chance to eliminate an inter-sector regulatory arbitrage, which has frequently been and still is quoted as the justification for sector integration of state supervision authorities (Poland, Germany, Great Britain). However, sector-oriented supervision structure persists on the markets of many EU member states which results in obstacles for ensuring both regulatory and supervision consistency covering the entire market. This opens opportunities for directing operations performed by the regulated entities to particular sub-markets (sub-sectors) offering more favourable conditions and thus making space for regulatory arbitrage at inter-sector level, and having considered the freedom of residence and services provision in the EU, this situation is also true in an international system.

It may seem that in an institutional dimension the new EU supervisory authorities, members of the European System of Financial Supervision (since 2011), having crucial coordinating and consulting tasks included in their activities profile, will reduce opportunities for regulatory arbitrage to occur, as well as its derivative – supervisory arbitrage. However, EIOPA’s competencies are limited and of subsidiary nature with reference to operations of the respective national supervisory authorities. This means that the supervision of insurance institutions, despite Community regulations and the new approach to insurance markets supervision methods, is still of national dimension which, obviously, does not rule out opportunities for regulatory arbitrage to occur.

Market regulation is not justified at the absence of supervision, the task of which is to ensure compliance with accepted regulations by the supervised entities [Monkiewicz 2007, p. 3]. Regulations referring to insurance institutions’ functioning cover standards common for all member states, however, some instruments are at the disposal of national supervisory authorities, which obviously opens opportunities for taking advantage of possible differences, especially in case of the so-called supervisory practices. Local decision-makers responsible for regulations, as well as supervisory authorities, can impose additional requirements on the supervised entities as the reaction to inconsistencies in the European regulatory framework which, however, results in the diversification of competition conditions between countries and thus constitutes an incentive for arbitrage to occur. Insurance institutions will always search for regulatory gaps and try to use them to their advantage, while adequate supervisory authorities will adapt their powers depending on the “approach” to the existing regulations. “Restrictive” attitude of supervisory authority may result in the supervised entities “fleeing” such jurisdiction and moving their operations to a different country. Although such approach is positive from the escaping entity perspective, in the global scale its consequences may be negative, since the deserted insurance market competitiveness keeps decreasing and the occurring loss of clients
Regulatory arbitrage at the EU insurance market

may result in the local market being “punished” by capital outflow to countries featuring lower regulatory restrictiveness.

All EU legislation is enacted to “ensure reliable and consistent effect of international regulations,” which is of particular significance for any supra-national market. Insurance market is, indeed, of supra-national character and the legislative efforts focus on ruling out possible regulatory arbitrage. However, the new regulations are also far from “perfect.” The diversification of MCR or SCR levels, provided by Solvency II directive, depending on the risk, prefers large entities, which undermines equal competition conditions in the EU and encourages for insurance groups restructuring, aimed at the regulatory arbitrage based on differences in capital level requirements. Solvency II directive also allows for the situation in which the amount of capital mark-up for the parent company and its subsidiaries may be set at different levels. This tool is left at the disposal of national supervisory authorities which make the right to raise the required solvency level dependant on the situation development, and that can be used for arbitration purposes (it is only the legally binding EIOPA mediation which allows for the dispute resolution between supervisory authorities). In some countries – depending on the situation development, the adequate requirements will be restrained, while in others the concern of negative impact on local insurance market will become a sufficient preventive factor. Additional charges (higher “regulatory costs”) can also enhance the transfer of performed activities to other financial institutions offering lower regulatory burden, which extends the phenomenon of inter-sector arbitrage.

The mechanism of supervisory authorities’ individual approach to insurance institutions solvency, provided for by Solvency II, can generally be considered as positive, since it eliminates the “flat rate” approach used in Solvency I. However, the subjective aspect of supervisory assessment, as well as allowing special treatment for some insurance institutions, may give rise to precedents offering opportunities for other insurance companies to take advantage of them and open space for regulatory arbitrage. The latter phenomenon, for the time being, presents just a theoretical approach (as of May 2013 Solvency II is not yet in force), however, from the perspective of opportunities for supervisory arbitrage occurrence it has already been noticed as one of more significant gaps in Solvency II regulations.

4. Final remarks

The majority of mechanisms related to the phenomenon of regulatory arbitrage are common for the entire EU financial market, whereas Community law at the insurance market refers to cross-sectional legislation regulations, supplemented by market specific laws prepared at different pace and dedicated to different goals. By definition, the EU regulatory bodies, attempting to influence regional and local principles of insurance markets functioning, aim at ensuring equal chances for competition, the reliability of international regulations, and eliminating the phenomenon of regulatory
arbitrage, which, however, is not entirely possible. Paradoxically, the term “regulatory arbitrage” is frequently referred to in the EU legislation as the justification for subsequent regulations which are intended, precisely, to avoid regulatory arbitrage.

The contemporary insurance market does not take administrative borders into consideration and adequate framework construction for universal regulations is not itself a sufficient condition to avoid arbitrage. Excessive regulation, on the one hand, opens opportunities for abuse in the form of national “interpretations” of regulations, which can have a distortive effect [Lascelles 2006, p. 92], and is particularly visible in the field of insurance supervision, whereas on the other, it does not fit in the dynamically developing world of international finance, where financial innovations can exceed the capacity of both regulators and supervisory authorities in fulfilling their roles.

The provision of stable and satisfying regulatory environment, as well as the elimination of differences resulting from the European legislation, is not an easy task. The risk of arbitrage is, in fact, ingrained in every regulation and offers opportunities for market participants to take direct or indirect advantage of it to their own benefit. As long as insurance market entities will function in the environment of different legal systems, internal provisions and various, even though more and more harmonized, supervisory methods and tools, regulatory arbitrage will persist and pose a threat to different regulations. It is a natural consequence of the fact that if differences, which allow for achieving certain benefits, occur there also appear arbitrageurs who wish to take advantage of these differences.

Owing to the fact that in many areas the EU just indicates the direction for legislation, the decisive role in the phenomenon of regulatory arbitrage minimization is played by effective cooperation between the EU and national regulatory bodies, as well as between national and sectoral supervisory authorities. Coordination and dialogue between them, as well as consistent and effective activities in respecting due requirements, are also of crucial importance. It allows for the establishment of equal conditions underlying competition between domestic and foreign insurance sector entities and covering the financial sector, and also reduces legal uncertainty and arbitration, which is to result in the protection of all insurance market participants’ interests as well as the “common good” at the European Union level.

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**ARBITRAŻ REGULACYJNY NA RYNKU UBEZPIECZENIOWYM UE – IDENTYFIKACJA ZJAWISKA**

**Streszczenie:** Arbitraż regulacyjny na rynku ubezpieczeniowym może się rozwijać jako następstwo fundamentalnych uwarunkowań stanowienia prawa w UE (specyfika dyrektyw, prawo zwyczajowe i prawo cywilne), może być powiązany z istniejącymi wspólnotowymi regulacjami specjalnie dedykowanymi dla rynku ubezpieczeniowego (tworzenie produktów ubezpieczeniowych, nadzór nad zakładami ubezpieczeń) oraz może być efektem przepisów, które dopiero zaczynają obowiązywać (Solvency II). Arbitrażu regulacyjnego na rynku ubezpieczeniowym (i finansowym) nie da się wykluczyć, ponieważ zawsze tam, gdzie będą różnice w restrykcyjności prawną, będą się pojawiać arbitrażyści, którzy owe różnice będą chcieli wykorzystywać, jednak można go minimalizować drogą skuteczną współpracę między unijnymi i narodowymi regulatorami oraz między krajowymi i sektorowymi organami nadzoru.

**Słowa kluczowe:** arbitraż, regulacje, nadzór.
ACTIVITIES FOCUSED ON SOCIETY EDUCATION
AND IMPLEMENTED WITHIN THE FRAMEWORK
OF CORPORATE SOCIAL RESPONSIBILITY
BY DOMESTIC LISTED BANKS IN POLAND

Abstract: The aim of this article is to answer the question of whether, how and to what extent domestic listed banks work towards educating the public within the framework of their Corporate Social Responsibility strategies. The research has shown that all the banks show some involvement in that area, but its level varies. The differences lie in the identity of beneficiaries and partners, in the forms, methods and variants of activity implementation as well as in their scope and scale. From the perspective of the role played by domestic listed banks in the economy and society and of their potential, it may be concluded that their interest in educating the public should be higher. On the other hand, when we look at the nature of domestic listed banks activities, it seems that they should focus their activity primarily on the economic, financial and banking education.

Keywords: Corporate Social Responsibility, education, listed banks.

1. Introduction

According to national studies, only 3% of Polish adults have ever heard about the concept of Corporate Social Responsibility – CSR [Koalicja CR 2010]. None of the respondents associated the term with the business entities’ activities for educating the public – EP. The author, inspired by the results of those studies, has made an effort to carry out an analysis to assess whether, how and to what extent the banks registered in our country and listed on the Warsaw Stock Exchange (domestic listed banks – DLBs) work towards EP within their CSR strategies. This article aims to answer this research question. The analysis was conducted in March 2013. The sample analysed consisted of 14 DLBs, and the subject of the analysis was their activities related to EP. The analysis covered open activities, i.e. those reported by DLBs to the public, including basically the activities undertaken during the last two years. The source material were DLBs management reports, banks’ reports in the field of CSR and the information published on their websites.
2. DLBs in Poland and CSR

Banks are among the entities implementing CSR strategy, which is not surprising for two reasons:
– first – as banks are institutions of public trust, have great economic importance and serve the economy, they are particularly well-placed to practice social responsibility [Krasodomska 2012, p. 151],
– second – banks have been the forerunners of practices that were later labelled as CSR, which means that they have a long tradition in this area to rely upon [Kulawczuk 2009, p. 32].

Of the entire body of banks, those particularly suited to implement CSR strategy are the cooperative banks – due to their nature, characteristics and philosophy [Korenik 2011, p. 23; Siudek 2010, p. 115] and the listed banks – due their potential and condition, underlying their role and capacity.


The DLBs, considered the top banks in Poland, don’t make a homogeneous group. The differences in their potentials and financial conditions, their various origins, ownership structures, missions, visions, goals and principles professed make their CSR practices, declared as applied by all of them, also different.

The effectiveness of such a bank’s strategy can be evidenced by its recognition – the bank’s contribution to the Respect Index – RI, its position in the Responsible Companies Ranking – RCR and the type of the symbolic “CSR Leaf” received.

Of the 14 DLBs analyzed, six were recognized as contributing to at least one edition of the RI. These include BHW and ING, which contribute to RI all the time;

1 The RI portfolio covers companies listed on the WSE that operate in accordance with the top standards of CSR. The first RI structure was published on 19.11.2009 and the latest, sixth one – on 24.01.2013.
2 The RCR – a list of the largest companies in Poland assessed for the management quality in the area of CSR – is created by B. Rok of Business Ethics Centre at the Leon Koźmiński University, verified by PwC and nowadays published by the Dziennik Gazeta Prawna [Forum Odpowiedzialnego Biznesu].
3 The symbolic CSR Leaves – gold, silver and white – were awarded by the Polityka weekly for the first time in 2012 to the entities listed in the Ranking of the largest Polish companies as well as in the weekly’s Top 500. All the DLBs were included. The Gold CSR Leaves were awarded to the companies for whom social responsibility is a key component of their business strategies. The Silver CSR Leaves went to those who have declared their commitment to significant CSR measures in their daily activities. The White CSR Leaves were received by the entities who implement the selected measures of corporate responsibility and keep improving them in their daily practice [Rudzki, Piccola].
MIL – contributing continuously since the second edition; BPH – which contributed four times; BRE – which contributed twice; and BZW – who managed to get their contribution recognized only once. In the current edition, the RI portfolio includes four banks, i.e. apart from BHW and ING also BPH and MIL. It should be noted that the eight DLBs who never managed to get recognized as contributing to RI include not only the “new” listed banks (ALR, GNB, BGZ) which had no chance to participate in all the RI editions in the past, but also the institutions listed at the WSE for many years (BOS, PEO, BNP, NDA, PKO).

Just like the RI, also the RCR did not recognize all the DLBs. As many as five of them (ALR, BOS, BNP, GNB, NDA) never participated in any of the six resolved editions of the competition, while BGZ took part in a single one – the most recent. Conversely, BRE missed just a single edition of the competition, PEO and ING missed two of them, and PKO – three. When we look at their success in the competition, PEO reached the highest position – i.e. the sixth place among all the participants – during the first edition, BZW – in the fourth edition and ING – in the sixth edition. We should also remember that in the banks’ category, PEO and ING were respective winners’ twice while BHW and BZW at a single occasion each.

Among the 13 companies awarded with the Golden CSR Leaves by Polityka, there was not a single DLB. When we look at the Silver CSR Leaf awards, the only financial institution to receive one was ING. The White CSR Leaves were awarded to 222 companies, including eight DLBs (BPH, BGZ, BHW, MIL, PEO, BZW, NDA, PKO). In the first edition, five DLBs failed to win any CSR Leaf (ALR, BOS, BNP, BRE, GNB).

3. Education of the public as a desired CSR activity of DLBs

A review of the literature in the field of CSR and of its standards leads to a conclusion that the desired CSR activities include EP. The validity of such a claim is supported by the following evidence:

– the opinion, expressed by J.W. McGuire as early as in the 1960s, according to which companies should be “good citizens,” i.e. show interest also in EP [McGuire 1963, p. 144],
– the ISO 26000 guidelines, according to which business organizations should implement educational efforts in various key areas of CSR [ISO 26000…, p. 7].

The Polish literature often presents the opinion that EP should be a top-priority CSR activity in Poland [Siudek 2010, p. 118]. Such an opinion may stem from the belief that:

– educational efforts undertaken by businesses within their CSR strategies can contribute to solving some social problems in our country, such as the limited access to education in rural areas or the lack of funds for education,
– development of education is the key to sustainable development and welfare of the Polish society,
investing in education is the basis for shaping the future of the Polish society that is prepared to meet its challenges.

Due to the fact that in Polish economy the DLBs are entities of particular importance and great potential, it seems reasonable to expect that they will also be involved in the EP and that this type of activity will be well visible in their CSR strategies.

While recognizing that an analysis of the various definitions of “public education” goes beyond the scope of this article, the author assumed that it will mean all the activities for education, teaching and training as undertaken by the DLBs – within the CSR area of social involvement – to support the development of a variety of vital capacities (e.g. physical, cognitive, aesthetic, moral or religious) in the stakeholders who do not have business relationships with the DLBs.

4. Presentation of the DLBs’ activities for EP

In its activities implemented within the CSR framework, ALR does not focus on educational activities but such activities occasionally appear is a component of charity actions for the children in orphanages or the people accidentally injured. Charity actions of this type, being of only occasional and temporary nature, consist in organizing or promoting social actions.

Unlike ALR, at BPH running a comprehensive financial education within the CSR framework is a priority activity. This BPH activity consists in: implementing an educational campaign *Women in the Financial World*, running the *Household Finance* website, participating in a national educational program of *Young Economist Academy*, funding scholarships for the winners of the *National Contest in Economic Knowledge* for high school students, and subsidizing the *District Mathematical Contest – Financier*. In addition, while implementing the CSR strategy, BPH also offers financial support to charitable actions and the voluntary work actions of its staff. An integral part of both of these activities are activities for EP. Here the most notable examples are: a nationwide *Back to School* campaign; the *Language Almanac* and the *Games and Plays for Holidays* projects; the *My Future, My Choice* programme; sponsoring a series of trainings for the proper development of children and youth, organized by the Medical University of Gdańsk; financial support of the Foundation for the Promotion and Accreditation of Economic Studies; and donations of furniture for schools, kindergartens, and educational centres.

BGZ is one of those DLBs who explicitly declare that support for ES is an important area of their CSR activities. With BGZ, the evidence in support of such a declaration is their identification of stakeholders – universities, secondary and middle schools, and the supporting institutions of education. BGZ pursues its objectives in this area mainly through BGŻ Foundation, which it founded and now finances. Statutory goals of the Foundation include undertaking and supporting the initiatives for the development of education and science as well as supporting and
promoting the initiatives aimed at improving the educational level of society, in particular creating equal opportunities for the intellectual, educational and vocational development of talented young people from all walks of life, including the regions and families living in poverty. The initiatives of BGŻ Foundation and its partners involve the BGŻ staff who volunteer, inter alia, to perform EP activities. Examples of these include a series of educational meetings within the framework of the No Secrets Bank for Everyone project, implemented at the Sosnowiec branch of BGŻ in liaison with the University of Economics in Katowice, or the educational projects supporting and rewarding the activity and entrepreneurship spirit of young people, carried out in collaboration with the Foundation for Youth Entrepreneurship – FYE (e.g. Entrepreneurship Day).

BHW – like BGZ – implements its EP initiatives largely through its own foundation, which it supports financially, and within its Employee Volunteering Programme. The Leopold Kronenberg Foundation founded by BHW focuses, inter alia, on economic education and on promoting the CSR concept. The priority area of its activity is financial education. Any presentation of BHW activity in the EP area would be incomplete without their Employee Volunteering Programme, regarded as the best in the country. Within its framework, the bank’s staff get involved also in the economic and financial education activities. They are engaged in conducting workshops within the framework of programmes like My Finances, From Cent to Buck or A Week for Saving. BHW volunteers also participate in the “Banks in Action” Contest in Financial Knowledge, providing expert consultation on the educational materials. In addition, they also manage individual projects in the area of financial education at schools across the country.

The CSR strategy implemented by MIL includes direct support for EP through various initiatives like: Come and Grow with Us – a programme aimed at creating chances for the active young people to launch their professional career at a multinational financial corporation; the Millennium Bankers Internship Programme, aimed at allowing students to use and verify their university knowledge in practice and earn professional experience; various training courses and workshops for students, which include free training in soft skills and workshops in finance and banking (within the Come and Grow with Us framework), workshops in negotiation skills (within the framework of the Skills Academy during the Career Days held by AIESEC), a cycle of training sessions and presentations for the university students in economics programmes, for instance on investment basic, financial analysis of business or mortgage collaterals, run by experts MIL (Millennium Academy framework), workshops for students of IT and related programmes on business analytics and specifically on the credit award process analysis (in cooperation with BEST); organization of contests in marketing, project management or quality and innovation management; financing of the main award (internship at MIL’s E-Banking Department) in the Compete for Internship contest organized jointly by Gazeta Wyborcza and PwC; financial and substantive support for student organisations
(especially for AIESEC Poland and BEST) in their activities and in pursuance of their statutory goals – working in liaison with AIESEC Poland, MIL was engaged in two projects, namely Ambassador and the Career Days, while in partnership with BEST at Warsaw University of Technology, MIL held a workshop within the Meet Your Employer project and the Engineering Job Fair.

**BOS** is another DLB involved in EP through its own foundation and employee volunteering. This commitment has been sustained, but is limited in scope. BOS and the BOS Foundation they finance focus on the initiatives related to environmental issues, sustainable development, ecology, healthy living and proper nutrition. Among these initiatives there are also programmes in support of EP, including the public education system. They are primarily addressed to teachers, students and parents as well as Internet users. BOS’ social engagement in the EP area is also manifested in the form of employee volunteering, which is supported by the Micro-subsidy contest, financed by the BOS Foundation.

For **PEO** – just like a few other DLBs – the activity aimed at supporting EP does not constitute a priority, but it is of considerable importance in their CSR strategy. The EP-related initiatives are implemented by the bank primarily through their Dr. Marian Kanton Foundation and in liaison with the CASE Foundation. The statutory goals of the Kanton Foundation, founded and financed by PEO, include support of activities in the area of education and care of children and youth, assistance to scientific institutions and schools in their R&D and teaching efforts, and supporting popularization of the banking knowledge. Initiatives in this regard are carried out as a component of the Foundation’s charitable activities. Apart from the initiatives in the EP area undertaken by the Kanton Foundation, since 1999 PEO has also supported – through financial donations – the statutory activities of the CASE Foundation that runs research into economic transformations, European integration and world markets.

Neither **BZW** in their CSR strategy nor the foundation they established focus solely on the EP-related initiatives. However, their activities in this area are considered very important and consequently sustained. They are an expression of pursuance of one of the BZW’s five strategic CSR policies, i.e. support for higher education, research and entrepreneurship, as well as one of the statutory goals of the Bank Zachodni WBK Foundation, i.e. support for youth education and care. The EP-related activities of BZW are implemented in three distinct ways, namely through: specific educational programmes initiated or implemented by the Bank Zachodni WBK Foundation; employee volunteering (BZW staff engage e.g. in organising educational trips for orphanage children); and the initiatives originating from the bank’s sponsoring programme and usually implemented in liaison with other institutions (e.g. a contest for comic and anime books on economics *Economic Education in Pictures*, organized by the Civil Development Forum; a contest in the knowledge of non-cash bank settlements *Someone will win – that’s settled!*, co-organized by the “S” Association for Economic and Civic Education and the Credit...
Information Bureau; the Science Festival in Warsaw, co-organized for the last 14 years by a number of entities, including universities and the Polish Academy of Sciences; the Santander Universidades – a strategic, long-term programme of cooperation with over a thousand universities from 15 countries, carried out since 1998 by the Santander Group).

Unlike BZW, at BNP the EP-related activities are not considered crucial for CSR policies. In some cases, however, this type of activity is carried out through the BNP Paribas Foundation, where the said bank is the founder and sponsor. The main objective of the Foundation is to prevent social exclusion, with particular emphasis on children and youth. This goal is achieved by initiating and carrying out – often with the involvement of other organizations, institutions and the business world – social programmes and philanthropic activities. The scope of such activities includes some efforts for the education of children and youth.

BRE involvement in the development of EP, particularly in the economic and financial areas, has continued for many years. Activities in this CSR area are implemented in three distinct ways: directly by BRE, through employee volunteering and through the BRE Bank Foundation, using a variety of instruments and methods, the choice of which depends on the needs of the beneficiaries, primarily businessmen, representatives of the financial sector and students. Some examples of BRE’s educational activities addressed at businessmen are: workshops; awareness campaign for entrepreneurs interested in co-financing of their investment projects from the EU funds; business-related publications prepared in cooperation with the Studio Emka publishing house (e.g. Winning znaczy zwyciężać by J. and S. Welch or Firma zrównoważonego rozwoju by C. Laszlo) or by BRE themselves (e.g. BRE Bank Guide to EU Financing); the Innovation Pitchfork – a study of innovation in the Polish economy; or MultiBank’s participation in the Łódź Youth – I have a business idea contest organized by the Mayor of Łódź. The beneficiaries of BRE’s educational activities are also the researchers and practitioners whose interests relate to the financial sector. An example of BRE activity in this area are public BRE – CASE seminars, organized in liaison with the CASE Foundation since 1992. BRE offers an attractive range of educational initiatives to students. So far, it has comprised the BRE – CASE Papers; the workshops to support the students’ entry into the labour market, including e.g. Your bank, your future and Public Your Relations; work placements and internships for students – basically those doing programmes in economics, but also in other areas (IT, sociology, psychology, mathematics) – at various units of BRE, including for instance the paid internships offered within the framework of the nationwide Meeter-Greeter programme. The BRE activities for student education also include the bank’s partnership in the Łódź Youth programme, initiated by the City of Łódź in 2008. In addition to the involvement of BRE experts in student education through the internships and work placements offered to them, since 2008 the Bank staff have also been actively involved in the volunteering programme called Let’s do something good together, within the framework of which
they implement their own projects, also in the area of EP. A significant part of BRE’s EP-related initiatives is implemented through the BRE Bank Foundation, whose mission is to support activities for individual development and for raising the social awareness and quality of life.

In its CSR strategy, GNB focuses on improving the quality of life of children with special needs or in a difficult financial situation. Its activity in this area is carried out through employee volunteering and through the activities of the Jolanta and Leszek Czarnecki’s Foundation (JLC). Under its CSR strategy, the EP-related initiatives are not a priority with GNB but they lie within its sphere of interest and are mainly addressed at children and young people. Examples of such activities, carried out by GNB volunteers within the Harmonious Team programme, are the educational activities aimed at children as well as the training courses in soft and hard skills offered to the young people. Beside the educational projects implemented by volunteers, which are only incidental and limited in scope, there are also long-term educational projects implemented on behalf of GNB. These are carried out by the JLC Foundation whose main statutory goals include supporting the gifted youth in achieving their self-sufficiency.

The activities in support of EP make an important component of the CSR strategy of ING. The bank’s interest in EP is manifested in various ways. One of them consists in ING’s direct involvement in the activities for education and entrepreneurship of high school students. The proof of the bank’s long-term engagement in this area is its nine-year-old participation in the National Entrepreneurship Day, held annually by the FYE. Another example of ING’s interest in the EP-related activities is the publication of therapeutic books by R. Jędrzejewska-Wróbel (*Lucjan: A one-of-its-type lion* and *The Alien*) that are available as e-books at the bank’s website and on various occasions are sent free of charge to institutions like libraries, community centres, schools or kindergartens. Apart from that, the bank cooperates with the ING Foundation for Children in implementing the ING Employee Volunteering programme, within which the bank staff e.g. carry out educational actions in schools and kindergartens, organize meetings for children combined with therapeutic book-reading (within the ING Group’s initiative called Global Challenge), and periodically collect school materials for the children in need. In fulfilment of its mission of equal opportunities for children from disadvantaged backgrounds, the ING Foundation for Children engages in educational activities consisting not only in the financial support of ING volunteer actions, but also in educational programmes, in the provision of financial aid to the community centres and schools educating the children and youth with special needs, and in organizing educational trips for their pupils.

While implementing its CSR strategy, NDA has long supported e.g. scientific events, both regional and national, primarily through sponsorships and partnerships. However, NDA’s EP-related activities do not have an impressive scope. The projects of educational character currently implemented by NDA are: *The Enterprising*
Preschooler, See the Invisible, A Business Plan for Gdynia, The Gdańsk Areopagus, The Sopot Catamaran School and NAVIGO.

PKO’s EP-related initiatives, carried out within the framework of their CSR policy, have been continued for many years and in various areas, largely as sponsorship and charitable activities or through the PKO Bank Polski Foundation. The Foundation’s statutory goal is to promote the public good and one of its seven key fields of activity is science and education. As part of its EP-related efforts, PKO promotes science, spreads knowledge, promotes creativity and introduces the society to the world of high-tech. The traditional pillar of the educational activities of PKO is its own Economic Education Programme for Kids, built upon the framework of School Saving Unions (SKOs). The programme – aimed at introducing children to the world of finance, banking and business – includes e.g. a series of radio broadcasts for children SKO – Listen, Calculate, Save and a children’s guide to economics – the Brawo Bank periodical. Examples of PKO projects in the area of EP, carried out as sponsorships, are: long-term cooperation with the Copernicus Planetarium at the Copernicus Science Centre in Warsaw; supporting the universities’ initiatives of national significance; cooperation – within the PKO Close to You programme – with the Spinka Association, consisting in financing the driving courses for people with mobility, speech or hearing problems; funding the scientific congresses, conferences and symposia (e.g. during 2011: the European Economic Congress in Katowice, CEE IPO Summit in Warsaw, the 2nd edition of Innovative Economy Congress, the 4th edition of Retail Banking Congress) and the great national educational campaigns (e.g. All of Poland Reads to Kids); partnership with the organisers of the National Contest in Polish and Contemporary World Studies; sponsorship of the Polish and World Championships in Team Programming and of the programmers’ team from University of Warsaw; supporting the Academy of Capital Market Leaders as well as EnActUs. Just like with sponsorship, also in the area of charity PKO provides financial and in-kind support to causes related to education of children and youth (e.g. provision of teaching materials for schools) and to entrepreneurship. Another interesting initiative of PKO, which allows its customers to join their charity actions, is the Inteligo debit card called Goodness pays – PKO earmarks a part of their income from the card transactions for financing a cause selected by the customer from the four options offered, one of which is education. The aforementioned PKO Bank Polski Foundation also takes part in implementing the PKO activities related to CSR.

5. Conclusions

The analysis shows that even though all the DLBs undertake EP-related activities, they are large differences in their nature. The differences lie in the identity of beneficiaries and partners, in the forms, methods and variants of activity implementation as well as in their scope and scale. The variety results from a number of factors, including for instance the needs and expectations of stakeholders on the
one hand, and the preferences, creativity, traditions, interests, strategy adopted and potential of DLBs on the other.

The DLBs who most intensely engage in EP-related activities and do it on the largest scale are BPH, BGZ, BHW, BZW and BRE. At the other extreme there are ALR, BNP and NDA, whose educational activities are carried out on a small scale only.

As far as the methods of implementing the educational activities are concerned, BZW, BRE and ING carry out three types of such activities that are manifested in the banks’ direct involvement, in their employee volunteering programmes and in the activities carried out through bank foundations. At six DLBs the EP-related activities are implemented in two ways (at BGZ, BHW, BOS and GNB – through employee volunteering or through foundations, at BPH – on its own and through employee volunteering, and at PKO – on its own and through a foundation). Another five of the 14 DLBs apply a single method of implementation (at ALR, MIL and NDA the educational activities are carried out by the bank on its own, and at PEO and BNP – only through a foundation).

The DLBs’ activities towards EP are basically aimed at children and young people, mostly those from poor families, and at the institutions and organizations engaged in educational activities or in education-supporting activities. Far less frequently such activities are addressed at adults, including e.g. pupils’ parents (BPH, BOS, ING), teachers (BOS, BZW, PKO), women (BPH), the disabled (NDA, PKO) or entrepreneurs (BRE). DLBs are reluctant to engage in charity activities, and if they do so, it is primarily in emergency charity actions to educate the individuals at their own request. Basically, they would rather support unique (own) educational initiatives and programmes or those initiated by renowned and reputable institutions and organizations.

DLBs’ engagement in EP has a diverse range of scopes and is usually multi-fold. DLBs engage in general education and historical education (BZW), in artistic and sports education (BGZ, NDA), in therapeutic activities (ING), linguistic activities (BPH), in the activities related to environment and health protection (BPH and BOS), to CSR (BHW) or to economics, finance and banking (BPH, BGZ, BHW, MIL, PEO, BZW, BRE, ING, NDA, and PKO). Although some activity in the area of economic, financial, or banking education occurs in as many as 10 DLBs, only at four of them, namely at BPH, BHW, MIL and BRE, it is considered a priority.

An analysis of the EP-related efforts of DLBs leads to the following conclusions:

1. DLBs’ commitment to EP should be much larger, which seems only reasonable given their role in the economy and society, and the potential available to them.

2. DLBs should focus their EP-related activities mainly – and to a much greater extent – on the education in economics, finance and banking, which seems natural due to the nature of their business.
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DZIAŁANIA NA RZECZ EDUKACJI SPOŁECZEŃSTWA REALIZOWANE W RAMACH SPOŁECZNEJ ODPOWIEDZIALNOŚCI BIZNESU PRZEZ KRAJOWE BANKI GIEŁDOWE W POLSCE

Streszczenie: Celem artykułu jest odpowiedź na pytanie, czy, jak i w jakim zakresie krajowe banki giełdowe działają na rzecz edukacji społeczeństwa w ramach strategii społecznej odpowiedzialności biznesu. Z przeprowadzonych badań wynika, że zaangażowanie we wspomnianym obszarze we wszystkich bankach występuje, ale nie jest takie samo. Różnice dotyczą adresatów i partnerów działań, form, sposobów i postaci ich realizacji oraz ich zakresu merytorycznego i skali. Patrząc z perspektywy roli, jaką odgrywają krajowe banki giełdowe w gospodarce i społeczeństwie, oraz możliwości, jakimi dysponują, nasuwa się wniosek, że ich zainteresowanie edukacją społeczeństwa powinno być większe, natomiast biorąc pod uwagę specyfikę prowadzonej przez nie działalności, wydaje się, że powinny one koncentrować swoją aktywność przede wszystkim na edukacji ekonomicznej, finansowej i bankowej.

Słowa kluczowe: społeczna odpowiedzialność biznesu, edukacja, banki giełdowe.
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CUSTOMER PROTECTION AS A TOOL
FOR BUILDING SAFE AND CONSUMER-FRIENDLY
FINANCIAL SERVICES MARKET

Abstract: One of the most important lessons to be drawn from the recent financial and economic crisis is the need to strengthen consumer protection and restore public confidence in financial system. The events on financial markets show that abusing and deceptive practices in connection with financial illiteracy and weak customer protection can lead in some cases to severe financial turbulences. The main objective of the article is to discuss the idea of consumer protection and indicate its role in building safer and more consumer-friendly financial services market, by pointing out its potential positive, multidirectional influence on financial markets.

Keywords: financial consumer protection, financial services market safety, sustainable development.

1. Introduction

The experiences of recent financial crisis show, with strong severity, how financial problems of retail consumers as well as dissatisfied level of their protection, can affect financial system and the whole economy. Using securitization by banks to transfer credit risk connected with subprime credits on market participants (including individuals) resulted in spreading the weaknesses of household finances on the entire global financial system.

One of the most important lessons to be drawn from the recent financial and economic crisis is the need to strengthen consumer protection and restore public confidence in financial system. The events on financial markets show that abusing and deceptive practices in connection with financial illiteracy and weak customer protection can lead in some cases to severe financial turbulences. Moreover, recent crisis highlighted the necessity of strengthening consumer protection in order to maintain long-term financial stability and enable sustainable development of financial markets.
The main objective of the article is to discuss the idea of consumer protection and indicate its role in building more safe and consumer-friendly financial system, by pointing out its potential positive, multidirectional influence on financial markets.

2. The idea of consumer protection on the financial services market

Financial consumer protection includes several initiatives undertaken by governmental institutions and consumer organization, which were established in order to protect consumer interests as well as initiatives undertaken at the international level. According to the World Bank [Ardic et al. 2011, p. 8], consumer protection framework generally includes the introduction of greater transparency and awareness about the goods and services, promotion of competition in the marketplace, fraud prevention, customer education, and elimination of unfair practices.

It involves rules of conduct for financial services providers in regard to their retail clients. Financial consumer protection is expressed in creating consumer-friendly financial system where interests of consumers are protected in contacts with banks and other financial institutions.

In most financial systems, regulatory and supervisory framework has already had the aim of consumer protection, along with maintaining financial stability, but in the light of recent events on financial markets, expanding regulations seem to be necessary in order to keep up with the pace of market changes and development. Rapid development of market and financial innovations in combination with inadequate regulations and supervision of financial institutions, as well as regulations concerning consumer protection, in environment of insufficient market transparency, create huge threats for consumer safety.

The necessity of ensuring consumer protection derives from the following disruptions occurring on the market [Rokicka 1998]:

– constraints of competition and disruptions of free competition rules,
– constraints in the access of consumers to reliable information, enhanced by aggressive marketing of financial products and services,
– lack of real influence of consumers on the terms of contracts made with financial institutions,
– limitations in the access of consumers to judicature resulting from financial, psychological and culture barriers.

Consumer protection becomes indispensable element of contemporary financial markets because of existing imbalances in access to knowledge, power, information and resources between consumers and their financial service providers, placing consumers at a disadvantage [Rutledge 2010, p. 9]. This situation creates asymmetric information problem causing consumers to make financial decisions in the conditions of insufficient knowledge and information, while a bank knows its product and has comprehensive information about real profits and costs of using it. This means that in the relation: a bank and its customer, a bank can take an advantage of its under-
informed client, what constitutes a serious problem, especially in the context of some financial institutions’ practice of intentional providing their customers with insufficient information. It leads to making the customers vulnerable to unfair and abusive practices by financial institutions.

In some cases, even full information about a product or service is insufficient, if customers come across a complex product and do not have sufficient knowledge and experience to assess the risk connected with it. That is why financial literacy should be an essential element of activities connected with strengthening consumer protection. As it is noticed in OECD Report [OECD 2009, p. 8], the growing complexity of financial products over the past decade, coupled with financial innovations and increasing transfer of financial risks to households, has put enormous pressure and responsibilities on financial consumers.

That means that consumer situation has been more risky recently, because of the constant trend of growing complexity of modern products and services, which they do not understand. However, as indicated in BIAC publication, financial consumer protection should boost understanding by consumers of the risks and potential results of products, rather than simply aim at reducing the complexity of products. It is because some of the complexities of modern financial instruments are designed to reduce risks for consumers, and it must accordingly be clear that complex financial products do not necessarily imply that they are more risky [BIAC 2011, p. 3]. The bigger problem is when complex products or services are of weak transparency, which does not give any possibilities to make aware decision, rather than existing complex products on the market.

Apart from the existence of complex products, World Bank Report indicates that imbalances which create the asymmetric information problem are also present in the following cases [Rutledge 2010, p. 9]:

– transactions are idiosyncratic or rare (for example, when providing a mortgage on a personal residence),
– entry or exit costs are low (such as for financial intermediaries), thus allowing disreputable firms to emerge, or
– the payoff to the consumer is postponed or very high (for example, long-term investment products, where performance cannot be evaluated for many years and expenses may consume a large part of profits).

In order to limit asymmetric information problem there should exit regulations directed to reducing these imbalances and protecting consumers on financial markets, providing them with information which they need in order to make a right decision. As A. Hannig and S. Jansen [2011, p. 306] appropriately noticed, consumer protection is generally considered to be a regulatory response to a market failure.

Without easy-available and credible information, it is difficult to make up rational choices. Thus, the main idea of customer protection is providing information to make the informed decision rather than securing from making bad financial decision. Review of literature allows for distinguishing main objectives of financial consumer protection, which are as follows [The World Bank 2011; Rutledge 2010]:
ensuring that consumers receive accurate information in simple, plain and comparable language before they buy financial product (to allow them to make informed decision) as well as during the life of the product,

ensure that consumers are not subject to unfair or deceptive practices,

providing consumers with access to fast, inexpensive and efficient mechanism for resolving disputes with financial institutions,

enabling consumers to obtain financial knowledge when they want and in the form they want,

maintaining privacy of consumers’ personal information (personal data protection).

Analysing these goals, it can be noticed that providing information seems to be essential to create opportunity to make good choices, but there emerges another problem – the quality of information, which also constitutes the issue of significant importance. In consumer protection literature there are some statements which say that information overload is also unfavourable. For example Ebers [2004, pp. 8–10] suggests that information overload reduces the usefulness of disclosure. He sustains that if overloaded with information, the average customer is often incapable to process information properly, what can lead to make a wrong decision. That confirms the importance of appropriate information which should be concise, clear and precise.

Taking into account the main goals of customer protection, it can be defined as attempts to redress the imbalance, by giving individuals clear and complete information provided in simple form to make well informed decisions, by prohibiting financial institutions from engaging in unfair or deceptive practices, and by providing adequate mechanisms to resolve disputes between individuals and financial institutions [Rutledge 2010, p. 10].

However, the consumer protection is a shared responsibility of governments, business and consumers, and it would be erroneous to imply that financial service providers should shoulder all of the responsibility [BIAC 2011, p. 2]. They are responsible for compliance with the law and regulations concerning consumer protection, but consumer protection does not mean protection from all investment risks. If consumers, basing on provided information, make aware choice and buy product of higher potential rate of return, they should be ready to take on higher investment risk. Thus, regulations concerning consumer protection should not forbid selling product of higher investment risk but rather provide consumers with full information, which allows them to evaluate benefits and costs connected with this product. It is possible under the condition of simultaneous supporting financial literacy.
3. The role of consumer protection in increasing financial services market safety

As indicated in the World Bank’s *Good Practices* [The World Bank 2011, p. 1], in order to create conditions for the customers to make informed and aware decisions, there should be support for activities connected with the idea of promoting financial literacy which gives customer knowledge and skills to understand and evaluate information they receive. It enables them to purchase those financial products and services which best meet their needs, and to avoid unsuitable or unnecessary ones. Well-informed, experienced and aware of their rights customers force financial institutions to offer better products and compete, apart from prices, also in the quality of their products and services. It results in creating the environment of social responsibility, which, in the light of recent confidence crisis, has become indispensable condition for deepening and development of the banking system and creating conditions to sustainable growth of financial markets.

Better informed consumers making their aware decisions influence the market and financial institutions, conducting some kind of market supervision. As the World Bank Report underlines, consumers who are empowered with information and basic rights—and who are aware of their responsibilities—provide an important source of market discipline to the financial sector, encouraging financial institutions to compete by products and services rather than by taking advantage of poorly informed consumers [Rutledge 2010, p. 10]. It gives a chance to create conditions of better transparency, efficiency and equal opportunities for both parts of transactions.

Besides, consumer protection also improves governance of financial institutions. By strengthening transparency in the delivery of financial services and accountability of financial firms, consumer protection helps to build demand for good governance of the sector and the strengthening of business standards in the financial sector [Rutledge 2010, p. 10].

It is beyond any doubt that efficient framework of consumer protection supports financial stability. It enhances sound competition among financial institutions offering aware customers better products and services, thus promoting innovations, growth and efficiency of financial markets. Moreover, well-functioning consumer protection along with financial literacy is an indispensable condition for supporting confidence to financial markets, which is essential for its sustainable development and stability. In long-term, all participants of financial system take benefits form effective consumer protection framework.

The strong influence and direct inter-connections between customer protection and financial stability confirm the statement of the Chair of the U.S. Federal Deposit Insurance Corporation, Sheila Bair, that “there can no longer be any doubt about the link between protecting consumers from abusive products and practices and the safety and soundness of the financial system” [*Consumers International*..., p. 1].
Consumer protection is an essential instrument of reducing financial exclusion. It constitutes an indispensable condition for maintaining confidence to financial system. That is why it is important not only because of protecting existing consumers in banking systems but also for creating confidence to banking system, thus enhancing future consumers to use banking products and services. It is particularly important for low-income clients with limited knowledge and experience in banking services, for whom effective consumer protection constitutes a condition for joining financial system. In this meaning, financial consumer protection becomes a crucial instrument for building an inclusive financial system. As M. Iwanicz-Drozdowska indicates, a wide availability of products and services (which is important not only for existing consumers but also for underbanked and unbanked clients) is one of the main determinant of financial services market safety taking into account client’s perspectives [Iwanicz-Drozdowska 2008, p. 148].

According to Alliance for Financial Inclusion, without an adequate consumer protection, the benefits of financial inclusion can be lost [Alliance for Financial Inclusion 2010, p. 2]. It means that in the conditions of ineffective consumer protection scheme and financial illiteracy, consumers can be harmed as a result of financial access and found themselves overindebted, underinsured or without an expected return of their investment. Such a situation creates the environment of mutual distrust and brings down the confidence to financial system.

The direct influence of customer protection on financial inclusion can be observed in following interconnections [The World Bank 2012, p. 14]:
– customer protection and financial literacy help to build public confidence, and raise demand for financial services,
– disclosure and transparency promote financial inclusion, lower risks, and can stimulate competition,
– financial literacy enables consumers to benefit from financial decisions.

The importance of consumer protection in building an inclusive financial system was confirmed in the World Bank Financial Inclusion Strategy [The World Bank 2012, pp. 13, 14], where consumer protection is understood as an indispensable element of the responsible financial inclusion strategy. According to this report, measures to strengthen consumer protection framework and to raise financial consumer awareness and capability need to be introduced alongside or as a part of financial inclusion strategy.

4. Conclusions

Recent financial crisis shows the necessity of strengthening consumer protection and supporting initiatives leading to restoring confidence to financial market. In the light of massive abusive practices highlighted by the crisis, consumers are in a strong need to equal their opportunities in contact with financial institutions. Financial consumer protection becomes more important because of growing pace of financial
innovation and launching on the market more complicated financial products and services, which are not understood by an average consumer. Improved consumer protection and financial literacy cannot be a “magic bullet” to solve all problems in consumer finance but they can identify preventive measures to help to avoid some of the worst financial consumer abuses [Rutledge 2010, p. 8].

Effective consumer protection has multidirectional influence on financial markets. First of all, it equals opportunities for consumers in relations with financial services providers in terms of access to information, decreasing asymmetric information problem. Well-informed and aware customers constitute an important source of market discipline, because they force banks to offer better, safer products and services better fitted to their needs and opportunities. Financial consumer protection plays a significant role in creating and maintaining public confidence, which is in turn a condition for financial markets safety and stability. Last, but not least, it constitutes an essential instrument of reducing financial exclusion.

In order to ensure the best effects of consumer protection, in the process of enhancing its framework, several entities should be engaged, not only government and financial institutions, but also consumers of financial products and services.

Consumers should be aware that in spite of existing effective framework of consumer protection, they should bear responsibility for undertaken financial decisions. A key for understanding this need is a constant increase of their financial education and engaging into initiatives of strengthening financial literacy. That is why, in order to strengthen the positive impact of customer protection on safety, stability and sustainable development of financial markets, consumer protection should be integrated with financial education and financial inclusion policy.

References

Ochrona konsumenta jako narzędzie budowania bezpiecznego i przyjaznego konsumentowi rynku usług finansowych

Streszczenie: Jedną z najważniejszych lekcji, jaką można wyciągnąć z ostatniego kryzysu finansowego i ekonomicznego, jest potrzeba wzmacniania ochrony konsumenta oraz przywrócenia zaufania do systemu finansowego. Wydarzenia, które nastąpiły na rynku finansowym, ukazują, jak nieuczciwe praktyki banków w połączeniu z niską świadomością finansową i niskim poziomem ochrony konsumenta mogą prowadzić do głębokich zaburzeń na rynkach finansowych. Głównym celem artykułu jest przedstawienie idei ochrony konsumenta oraz wskazanie jej roli w budowaniu bardziej bezpiecznego i przyjazneggo konsumentowi systemu finansowego poprzez wskazanie jej pozytywnego, wielokierunkowego wpływu na rynki finansowe.

Słowa kluczowe: ochrona konsumenta, bezpieczeństwo systemu finansowego, zrównoważony rozwój.
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ENTREPRENEURSHIP DETERMINANTS VS. MOTIVES UNDERLYING WOMEN’S ENTREPRENEURSHIP

Abstract: The objective of the paper is to present general determinants influencing decisions referring to starting a business, with particular emphasis on motives followed by women in such activities. The analysis presented in the paper, owing to the discussed problem complexity, takes the form of a review and does not concentrate on particular problems or regions. The first part of the paper presents the essence of entrepreneurship and its historical outline providing the background for further analysis. Then the author concentrates on discussing entrepreneurship determinants as well as motives behind undertaking business activities. Finally attention is concentrated on attitudes and factors responsible for motivating women. The focus on women results from the evolution of their life roles and the fact that women’s entrepreneurship can become an incentive for sustainable economic development.

Keywords: entrepreneurship, women’s entrepreneurship, determinants and motives of entrepreneurship.

1. Introduction

Entrepreneurship, mostly frequently considered as a masculine attribute, has also started to be consciously associated with women’s behaviours. In the recent decades women have shown significant progress in overcoming obstacles referring to gender equality and, as the result, also in undertaking employment, starting their own businesses and following the path of professional development. In the times of global economic crisis and the increasing unemployment rate affecting many countries worldwide, more and more attention is paid to women who constitute more than half of the world population. The potential inherent in their entrepreneurship may become the incentive for sustainable economic development as well as the factor which reduces both unemployment and poverty. Therefore this phenomenon, not only in its theoretical and scientific but also practical aspect, attracts the growing attention of economists, politicians and non-governmental organizations.1

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1 See e.g. in: [McGrath Cohoon et al. 2010; Women’s Entrepreneurship… 2002].
2. The origins and essence of entrepreneurship

While trying to comprehend the essence of entrepreneurship it should be noticed that enterprising activities have been accompanying human beings during the entire history of this species. Managing, since the beginning of times, has been related to entrepreneurs and entrepreneurship. The analysis of reference sources, however, indicates that this category has not always been attracting so much attention in the course of different historical periods. Not all economic or political systems were creating adequate conditions to stimulate entrepreneurship development by encouraging people to start up and run businesses. It is also true that the appreciation for economic significance of entrepreneurship was not always sufficient. Attitudes, approaches and ideas in this matter were undergoing transformations from total ignorance of its role, in classical or Marxist economic systems, to the opinion that it is the crucial driving economic force and the factor influencing economic growth and development.

The term “entrepreneur” was used for the first time in the Middle Ages. A person performing the function of an entrepreneur was identified with an individual supervising the production of goods and starting from the 17th century with a person undertaking risks, obtaining profits or suffering losses resulting from governmental contracts referring to manufacturing goods or rendering services. This concept was, at that time, used relatively rarely and was not widely recognized until the 18th century [Piecuch 2010, pp. 13, 14].

The origins of scientific and research focus on entrepreneurship date back to the times of industrial revolution and the pioneers of emerging capitalism. This interest was related to the establishment of new, at that time, forms of management, administration and economisation of social life by means of adequate capital, technical, human and resources potential implementation. Capital allocation was accompanied by substantial risk. It resulted from an opportunity for quick profit multiplication, however, frequently ended up in a failure and bankruptcy. Entrepreneurship was discussed and explained in the works by representatives of economic and social liberal thought. A. Smith, J.B. Say and J. Schumpeter [Potocki (Ed.) 2000, pp. 19, 20] are considered the precursors of entrepreneurship.

In its psychological and economic dimensions entrepreneurship has always been associated with investigating and implementing new forms of development, changing social status based on the acquired power or capital by the particularly active and mobile individuals, social groups, nations, by participating in events of global importance.

Therefore, it can be observed that people featuring contemporary attributes of entrepreneurs have been functioning in every historical epoch regardless of social and economic development level.

The currently functioning definitions of entrepreneurship are quite diversified. It results from the approach to the discussed phenomenon represented by a given
researcher. Entrepreneurship is referred to as an economic, social, managerial concept also related to economic psychology.

One of the definitions refers to “entrepreneurship” as the characteristic feature of activities aimed at ensuring rational and effective coordination of economic resources at the disposal of a particular company. In practice this concept is understood as the form of work, or as the fourth (apart from work, land and capital) production factor. The leading qualities, typical for entrepreneurs, mainly refer to the skill of noticing needs and improving ideas, as well as the capacity for taking advantage of the occurring opportunities and the willingness to take risks [Janowski et al. 1998].

On the other hand, the definition presented by S. Shane and S. Venkataraman specifies “entrepreneurship” as “activities covering the identification, evaluation and exploitation of chances for launching new products and services, organization strategies, markets, processes and resources by means of managing efforts by means of strategies which have not yet been applied.” In the course of this process fundamental significance is attributed to market opportunities, reasons underlying their occurrence, sources and forms, identification and evaluation methods, obtaining indispensable resources and exploitation strategies [Shane, Venkataraman 2000, pp. 217–226].

The definitions presented above are concentrated on entrepreneurship as particular activities, behaviours or qualities typical for these activities. It should, however, be observed that there have also been offered different perspectives in approaching this concept, e.g. entrepreneurship as the set of certain personality features, taking advantage of them, as well as skilful implementation of opportunities present in the environment.

Further discussion is concentrated on entrepreneurship in the sense of running a business.

3. Determinants of entrepreneurship

The analysis of the concept of entrepreneurship is not an easy task. Having in mind the diversity of its manifestations, it is not possible to carry out measurements in a comprehensive or satisfying way having applied only one method. With reference to this aspect, a large cognitive role is played by the research project Global Entrepreneurship Monitor (GEM) initiated in 2007 and carried out jointly by Babson College in Boston and London Business School. This project facilitated, for the first time, the comparison of a broad spectrum of entrepreneurship manifestations having applied the originally prepared methodology [Przedsiębiorczość kobiet… 2011, p. 18]. It also covers the problem of women’s entrepreneurship.²

Entrepreneurship is analysed, worldwide, in the context influenced by determinants of external nature with reference to an enterprising unit. Therefore, the decision to start a business results from combining psychologically influenced inner

² See in: [Allen et al. 2007; Kelley et al. 2010].
motivation and external socio-economic determinants. General national framework conditions and entrepreneurial framework conditions [Kelley et al. 2010, p. 46] are different depending on particular countries.

General national framework conditions refer to characteristic features of the entire economy but, at the same time, can influence entrepreneurial behaviours. Among them the following can be listed: economy openness, its growth dynamics, monetary stability, effective market functioning.

Entrepreneurial framework conditions are of crucial importance for economic activities recognition and development. They have direct impact on business ventures by either supporting or restraining them and are represented by the following factors [Przedsiębiorczość kobiet… 2011, pp. 26, 27].

1. Capital availability understood as the availability of financial resources, including subsidies for new and developing companies. Financial capital can originate from: the resources owned by those initiating their businesses, means provided by other investors, credits and loans, the issue of shares, investment funds, state subsidies, etc.

2. Public policy (taxes, legal regulations, etc.) in the aspect of government policy direction and level of influence referring to taxes and legal regulations, as well as the method for their implementation regarding new enterprises start-up and development. The government and authorities can actively and efficiently support starting and running a business or restrain and limit such activities. Therefore they are the most important entities shaping economic environment.

3. Public programmes which support entrepreneurship and are offered to new and developing companies at national, regional and communal level. The support from public programmes, when starting a business and establishing its legal and financial foundations, may represent an important factor in market entering and remaining in its competitive environment.

4. Education and trainings, their level, quality and adequacy referring to the identification or management of a new or developing business. An adequate education system, including its tertiary level, at particular courses may exert positive impact on the willingness and capacity to start and run one’s own company. On the other hand, primary, lower and upper secondary level education influences personality, habits and intuition determining the success of projects undertaken in adult life. Adult education, within the framework of full-time, post-graduate or training courses is also of great importance.

5. Research and development, the scope in which the underlying expenditure results in opening new business opportunities and whether research results are available for entrepreneurs.

6. Commercial and professional infrastructure – the influence of professional business, legal and accounting services, as well as the institutions focused on economic activities enhancement and promotion. Any company success, apart from its
own potential, also depends on the quality and possibilities for cooperation with suppliers, sub-suppliers, business partners, consulting companies, banks, law firms, etc.

7. Market openness/barriers in entering it in the sense of formal and informal limitations restraining the initiation of economic activities.

8. Availability of technical infrastructure, i.e. the possibilities opened for entrepreneurs in taking advantage of: roads, telecommunication, the Internet, electricity, gas, etc. If some of these components are missing, enterprises face significant difficulties in their operations, which influences adversely their efficiency.

9. Cultural and social standards, i.e. the scope in which the existing social norms encourage or discourage undertaking and developing economic activities. Among them the following are considered: social perception of an entrepreneur, his/her mentality, value systems, particular personal features, such as independence, individual initiative, willingness to take risks and ability to innovate.

Entrepreneurship determinants, defined in the above-presented way, refer to the representatives of both genders. However, due to different reasons and conditions underlying the decision to start a business it can be inferred that their significance for women and men is, to a certain extent, different [Przedsiębiorczość kobiet..., pp. 26, 27].

4. Motives underlying starting a business – women’s perspective

The decision to start one’s own business results from different reasons. Following such professional path has many advantages. On the one hand, running one’s own company is related to greater independence, absence of supervisors, work flexibility, higher income, etc. On the other hand, however, running one’s own business brings about many risks. It is not always possible to predict the profitability of investments made and therefore the resulting income is never 100% certain, especially in the initial phase of operations increasing the risk of capital loss. Being self-employed is always associated with stress and time pressure, since the entire responsibility and the vast majority of duties remain the task of an entrepreneur – the business owner. Frequently, however, the benefits of entrepreneurship have an advantage over the underlying inconveniences and constitute a strong motivation for starting a business.

Having concentrated on the discussed determinants influencing the decision about starting a business by women, for cognitive purposes and in order to create favourable conditions for the undertaken initiatives, attention should be paid to:

– economic factors referring to an increasing level of social wealth resulting in the development of services opening space for women’s entrepreneurship;

– economic crises and unemployment restraining the scope of hired workforce mainly referring to women who have to look for income sources by working on their own;
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- social and cultural factors related to the perception of women as entrepreneurs (cultural standards, according to which a woman entrepreneur is observed as an unusual rarity, are the thing of the past. The system of life values and their hierarchy do not present any significant relationship with labour market status and thus with running a private company, or with its owner’s gender);
- technological progress, women are less active in high-technology sectors;
- socio-demographic factors, i.e. family situation, age, education level, ethnical origin, previous experience in self-employment;
- institutional factors, i.e. capital availability, childcare system, maternity leaves, business start-up costs.

Having focused on the reasons underlying entrepreneurship, Table 1 lists motives followed by both men and women when deciding to start a business. These motives which are particularly crucial for women have also been distinguished. This, however, does not mean that they are typical for women exclusively, since it is also men who follow them.

Table 1. Motives underlying starting a business

<table>
<thead>
<tr>
<th></th>
<th>Men</th>
<th>Women</th>
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</thead>
<tbody>
<tr>
<td>Aspiration for independence</td>
<td>The need for fair earnings</td>
<td></td>
</tr>
<tr>
<td>Inborn entrepreneurship skills</td>
<td>Willingness to take risks</td>
<td></td>
</tr>
<tr>
<td>The desire to prove one’s self-worth to a partner</td>
<td>Absence of other possibilities for earning a living</td>
<td></td>
</tr>
<tr>
<td>Favourable market conditions</td>
<td>Unemployment</td>
<td></td>
</tr>
<tr>
<td>Prestige, high position</td>
<td>Parents’ example</td>
<td></td>
</tr>
<tr>
<td>The risk of unemployment</td>
<td>Independence</td>
<td></td>
</tr>
<tr>
<td>Responsibility for own decisions</td>
<td>Possibility to set the targets individually</td>
<td></td>
</tr>
<tr>
<td>Financial security</td>
<td>Opportunities for financial development</td>
<td></td>
</tr>
<tr>
<td>The realization of individual ideas</td>
<td>A chance for an interesting job and the resulting satisfaction</td>
<td></td>
</tr>
<tr>
<td>Negative experiences from hired labour</td>
<td>Greater job security</td>
<td></td>
</tr>
<tr>
<td>Suitable, flexible, irregular working hours</td>
<td>Possibility of offering work to others</td>
<td></td>
</tr>
<tr>
<td>Motherhood</td>
<td>Source: author’s compilation [Lisowska, Kasprzak (Eds.) 2008, pp. 181, 186].</td>
<td></td>
</tr>
</tbody>
</table>
The factors underlying self-employment can be divided into internal and external (objective) ones.

It is the personality of an entrepreneur that frequently inspires him/her to start a business. Such qualities as not being afraid to take risks and challenges, the desire to become independent, to have power, adequate temperament, presented attitudes and aspirations, the need for action are of great significance.

External factors are also of crucial importance. It is best if they enhance starting one’s own business rather than force it, which is often the case. In households suffering problems related to labour market and high unemployment rate self-employment is frequently imposed by the circumstances and the absence of other alternatives for finding a job or earning a decent income. This is also the most common reason followed by women when starting a business, to a much larger extent than in case of men, and presents a similar tendency worldwide [Rollnik-Sadowska 2010, pp. 126–128]. The need for self-employment is particularly popular in Latin America and Asia. In these regions entrepreneurship rate regarding women is higher than in Europe and USA [Ilie 2012].

Women, contrary to men, present smaller willingness to take risks and value the sense of security. They are much better in soft skills, i.e. communicativeness, entering into contacts with others, presents higher empathy. Table 1 illustrates that motives behind women’s decisions about undertaking self-employment are also softer than in case of men, i.e. an opportunity for performing a more interesting and satisfying job, the possibility of offering jobs to others, but most of all motherhood.

Soft qualities, typical for women, result, e.g., from experiences, socialization, roles played by women in the society, including family ones. These are, however, also features which according to certain stereotypes constitute a barrier for entrepreneurship. Men, on the other hand, do not face such limitations at all, for whom entrepreneurship is frequently the priority of activities they become involved in [Manolova et al. 2008, p. 71].

5. Final remarks

Women’s entrepreneurship, owing to its potential, presents an important challenge for every society as a complex and multifaceted phenomenon. These countries which open opportunities by disclosing their attributes to enterprising citizens, including women, report higher economic growth. The implementation of an overall potential ingrained in women represents the source and incentive for social wealth growth.

The problem of entrepreneurship analysed in general terms, as well as narrowed down to women’s entrepreneurship, constitutes the subject matter of numerous studies. This problem can be considered as an interdisciplinary one since it is discussed in economics, management, sociology and psychology. Thus the conducted analyses and studies represent multidisciplinary research work. The hereby paper
Adriana Przybyszewska

does not quote either quantitative or statistical data deliberately, because they are extensively diversified depending on the studied territory, time period, education level, age and characteristics of the analysed sample, as well as different underlying determinants.

The study of self-employment process among women allows for taking a closer look at transformations occurring within social roles performed by women in different countries and confronted against the cliché of a man – entrepreneur. It is still true that entrepreneurship is perceived as the masculine domain. However, having taken an alternative perspective, the stereotype of a male entrepreneur, presented with different strength in different cultures, is not persistent enough to stop women from starting their own business. In spite of the fact that the position of a woman and the multitude of performed female social roles is diametrically different in various regions of the world, it does carry, in all circumstances, numerous requirements difficult to meet, the more difficult, the more traditional roles are to be played by a contemporary woman who decides to start her own business.

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DETERMINANTY PRZEDSIĘBIORCZOŚCI A MOTYWY PRZEDSIĘBIORCZOŚCI KOBIECY

Streszczenie: Celem artykułu jest przedstawienie ogólnych determinant wpływających na decyzje o podjęciu działalności gospodarczej, ze szczególnym uwzględnieniem motywów, którymi w takim działaniu kierują się kobiety. Analiza dokonana w artykule ze względu na złożoność zagadnienia jest przeglądowa, niekoncentrująca się na konkretnych problemach ani regionach. W pierwszej części artykułu nakreślono istotę przedsiębiorczości oraz jej rys historyczny, będące tłem dalszych analiz. Następnie skoncentrowano się na charakterystyce determinant przedsiębiorczości oraz na motywach jej podejmowania. Ostatecznie skierowano uwagę na punkt widzenia i czynniki motywacyjne kobiet. Skupienie uwagi na kobietach wynika z ewolucji ich ról życiowych oraz z tego, że przedsiębiorczość kobiet może być motorem zrównoważonego rozwoju gospodarczego.

Słowa kluczowe: przedsiębiorczość, przedsiębiorczość kobiet, determinany i motywy przedsiębiorczości.
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FINANCING THE TRANSITION TO GREEN ECONOMY IN EUROPE*

Summary: The global financial crisis confirmed that the return to the previous state is impossible and we need a new concept of economic and social growth adapted to the changing global economy. The new European Union’s strategy Europe 2020 emphasizes sustainable development and green economy as an engine of future development. The green economy has a significant role in the structural changes in European economies (technologies, innovation, new jobs). Transition has to be supported by financial instruments from public and private sector.

Keywords: sustainable development, green economy, sustainable finance, global crisis.

1. Introduction

The purpose of the article is to show how the concept of green economy can be an empowering tool of the sustainable development in Europe and to describe a green economy as a new, more radical direction in creating the harmonious, balanced social and environmental development of countries. The concept of green economy is formulated as an alternative approach to the existing model of economy. This article examines the new thinking started after a global financial crisis (2008) and continued to the conference in Rio de Janeiro (commonly referred to as Rio+20). The integral part of the concept is a system of financing the transition to green economy from the private and public sources.

To achieve the purpose of this paper the methodology based on systemic approach will be used [Sterman 2000, pp. 86–88]. First we have to consider what is the problem? The answer will concentrate on a few aspects of global crisis and will be a short diagnosis of existing economic system. Then follows the second question: Why is it a problem, that means what is the cause of the problem? The next step of the systemic approach is to propose an new model which is green economy. To complete the process some other questions are possible: How to implement the ideal

*The paper was financed from the funds of the National Science Centre, decision no. DEC-2011/03/B/HS4/05359.
concept (model)? What kind of policy instruments can be used? Especially the financial ones. Following that, we can conclude from the literature and from the documents of the European Union what kind of strategy and policy will be used to implement the green economy concept and what kind of financial instrument will support it.

2. Global financial crisis as a near death experience for the economy – short diagnosis

The global financial crisis in 2008–2009 became multidimensional economic, social and environmental. On the economic level the effects of the crisis were a reduction of the world GDP and volume of international trade, reducing investment and jobs creation, etc. Side effect of the crisis was a reduction of the level of well-being [Streeck 2011; Krugman 2009; Roubini, Mihm 2011]. People have lost savings, their jobs and, in particular, have lost confidence in the financial sector, banking and more generally in the market economy. The scale of this crisis, its global dimension and the lack of early warning signals from a market economy were a shock for the citizens, politicians and even for financiers and bankers [Stiglitz 2010] International organizations and countries prepared recovery programmes and strategies for the future [Towards Green Growth 2011; The Transition to a Green... 2011; Europe 2020... 2010]. What should be the new purpose of economic strategy after the crisis? Which objectives and values are important to build a new model of the economy? Many actors of political and economic life propose a sustainable development, operationally defined as a green economy concept [Barbier 2010; Ocampo 2011].

3. What has changed in the world economy after the crisis?

The myth of growth has failed us – says T. Jackson in his book Prosperity without Growth. It has failed the two billion people who still live on less than $2 a day. It has failed the fragile ecological systems on which we depend for survival. It has failed, spectacularly, in its own terms, to provide economic stability and secure people's livelihoods. Today’s world is characterized by the degradation of forests, lakes and soils, conflicts over land use, water quality, fishing rights and the concentrations of carbon in the global atmosphere. And we face these tasks with an economy that is fundamentally broken, in desperate need of renewal. In these circumstances, a return to business as usual is not an option. Prosperity for the few founded on ecological destruction and persistent social injustice is no foundation for a civilized society. The global crisis challenged the dominant economic model to its foundations [Jackson 2009, p. 5].

Table 1 is based on many papers [Wehinger 2009; Krugman 2009; Beker 2011; Streeck 2011], books [Roubini, Mihm 2011; Kołodko 2011; Stiglitz 2010; Jackson... 2011;... 2010;... 2010;... 2010;... 2010;... 2010].
2009], reports, statistical data of Eurostat [Economic crisis... 2009] and articles published just after the crisis. Positive and negative aspects of the crisis show complexity and systemic character of the global crisis.

**Table 1.** Negative and positive aspects of global crisis for economy

<table>
<thead>
<tr>
<th>Negative</th>
<th>Positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction of GDP</td>
<td>Discussion of the limitations of GDP</td>
</tr>
<tr>
<td>Recession</td>
<td>as a main indicator of economic activity</td>
</tr>
<tr>
<td>Growing unemployment</td>
<td>Global Green New Deal</td>
</tr>
<tr>
<td>Deficit of the national and local budgets</td>
<td>Green Economy</td>
</tr>
<tr>
<td>High public sector spending on private-sector rescue</td>
<td>Eco-innovations</td>
</tr>
<tr>
<td>Reducing the level of investment</td>
<td>Green investment funds</td>
</tr>
<tr>
<td>Decrease of people confidence in market and financial sector</td>
<td>Sustainable finance and banking</td>
</tr>
<tr>
<td>Lower supply of goods and services</td>
<td>Moving toward the renewable energy</td>
</tr>
<tr>
<td>Reduced public spending for social purpose</td>
<td>investments, and environmentally friendly technologies (new jobs)</td>
</tr>
<tr>
<td>The growing role of governments in economy</td>
<td></td>
</tr>
<tr>
<td>The crisis of an economic model</td>
<td></td>
</tr>
</tbody>
</table>

Source: own elaboration.

The new trends in the economy are already a fact. We can see sustainable banking, eco-taxes, green investment funds, green public procurement, eco-innovations in industry, low carbon economy, alternative sources of energy, etc. New strategies prepared for the European Union and other countries only confirmed existing trends.

4. What is a new picture of economy, what kind of development do we need? Main world and European initiatives

The politicians were first in diagnosing the situation after the crisis. They were surprised somehow what happened. President Sarkozy asked economists, scholars and providers of economic data why there were no warning signals from financial markets and from the economy about coming crisis. Therefore the first diagnosis and recovery programmes were created by governments and international organizations like the United Nations, OECD, European Union. For the purpose of this paper important is the presentation of the content of a few selected documents. The common characteristic of these documents is that in the heart of them is concept of sustainable development and green economy. Authors of presented strategies and reports are convinced that the recovery after the crisis and future development which will protect us against next crisis have to base on sustainable economy. The concept of the sustainable development and the green economy has gained importance because we need a response to the multiple crises – the climate, food, economic and social crises – with an alternative paradigm that offers the promise of growth while protecting the earth’s ecosystems and, in turn, contributing to poverty alleviation. In this sense, the
transition to a green economy will entail moving away from the system that allowed, and at times generated, these crises to a system that proactively addresses and prevents them [The Transition to a Green... 2011].

We can find interesting ideas in the United Nations’ Global Green New Deal and Green Economy initiative, in the European Union’s programme Beyond GDP and the strategy Europe 2020. Practical suggestions how to measure economic and social development are in the Report by the Commission on the Measurement of Economic Performance and Social Progress headed by J. Stiglitz. Certain point of view is presented in the report Enough Is Enough. Steady State Economy. Also the newest event Rio+20 – the United Nations Conference on Sustainable Development in Rio de Janeiro, Brazil, in June 2012 – was organized around the idea of transition towards green economy. The United Nation is again bringing together governments, international institutions and major groups to discuss, among other topics, a vision of the future economy.

“Global Green New Deal” of United Nation Environmental Program (UNEP) proposed for reviving the global economy and boosting employment while simultaneously accelerating the fight against climate change, environmental degradation and poverty that a significant portion of the estimated USD 3.1 trillion in economic stimulus packages be invested in five critical areas: energy efficiency in old and new buildings; renewable energy technologies, such as wind, solar, geothermal and biomass technologies; sustainable transport technologies, such as hybrid vehicles, high speed rail and bus rapid transit systems; the planet’s ecological infrastructure, including freshwaters, forests, soils and coral reefs; and sustainable agriculture, including organic production. The new picture of economy in this document shows that the sector of green economy is a priority in the future development. Twenty most advanced economies have been called to engage in a Global Green New Deal by investing at least 1 per cent of their total GDP in promoting green economic sectors [Barbier 2010]. UNEP reiterates its Global Green New Deal call, and urges governments to invest USD 750 billion of the USD 2.5 trillion stimulus package (about 1 per cent of global GDP) towards building a green economy – one that reduces carbon dependency, addresses poverty, generates good quality and decent jobs, maintains and restores our natural ecosystems, and moves towards sustainable consumption. The development of green economy means also development of clean technologies, renewable energy sources, improving energy efficiency in industry, changing the model of consumption and production for more sustainable, implement integrated product policy, green procurement, creating green jobs and finally ecological tax reform [Barbier 2010].

Also the report by J. Stiglitz [Stiglitz et al. 2009], which was prepared for the President of France, shows that the reasons why the crisis took many by surprise is failure of our measurement system not focusing on the right set of statistical indicators. Report says: “The crisis is teaching us a very important lesson: those attempting to guide the economy and our societies are like pilots trying to steering a course without a reliable compass” [Stiglitz et al. 2009].
In the European Economic Recovery Plan it was recognized that the crisis should also be taken as an opportunity to set our economy more firmly on the path to the low-carbon and resource-efficient economy. These challenges point to the need for more inclusive markers than just GDP growth. The new strategy called *Europe 2020* puts forward three mutually reinforcing priorities:

- **smart growth**: developing an economy based on knowledge and innovation,
- **sustainable growth**: promoting a more resource efficient, greener and more competitive economy,
- **inclusive growth**: fostering a high-employment economy delivering social and territorial cohesion [*Europe 2020*... 2010, p. 6].

The motor of this strategy is sustainable growth which will help to decouple economic growth from the use of resources, support the shift towards a low-carbon economy, increase the use of renewable energy sources, modernize our transport sector and promote energy efficiency. The crisis made us aware that “business as usual” is not possible anymore.

For this new strategy GDP is not a compatible indicator. There is a lack of comprehensive environmental indicator that can be used in policy debates alongside GDP. Such a single measurement for the environment would help foster a more balanced public debate on societal objectives and progress. The European Commission intends to present a pilot version of an index on environmental pressure in coming years.

The global financial crisis rocks people’s faith in business and governments. The main challenge was to rebuild trust and find answers for many of the tough questions society faces. The *Vision 2050* project has been a collaborative effort of the 29 companies, supported by the World Business Council for Sustainable Development (WBCSD) secretariat, the wider business community and regional network partners around the world. The goal was to see what the sustainable development would mean for business and markets in general and what can be done for better future. The impression was that business-as-usual cannot get us to sustainability or secure economic and social prosperity; these can be achieved only through radical change, starting now. Born of environmental and economic crises and spread by education and the media, these initiatives encourage “One World – People and Planet” behaviour in society and individuals [*Vision 2050*... 2010, p.10] Finally, we finish the global discussion about the economic crisis and the future of economy by presenting main topics of the United Nations Conference on Sustainable Development in Rio de Janeiro in June 2012. The objective of the conference was to secure renewed political commitment for sustainable development and address new and emerging challenges. The moment could not be more fitting. We are on the cusp of the first environmental limit – climate change and the first economic reality of a global resource limit as demand for oil outstrips supply. The Conference was focused on two topics: (a) a green economy in the context of sustainable development and poverty eradication; and (b) the institutional and financial framework for sustainable development [UNEP 2011].
Greening the economy means mainstreaming the environment into economic development. The term “green economy” is not consistently defined as it is still an emerging concept. A green economy is one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities. One of the possible answers to the multi-dimensional crisis is the concept of green economy. There is shared awareness that broad, systemic and long-time vision is necessary. And in fact the concept of a green economy has become a centre of policy debates in recent years.

5. The concept of green economy – the new model

There is a “growing recognition that achieving sustainability rests almost entirely on getting the economy right.” It also emphasizes the crucial point that economic growth and environmental stewardship can be complementary strategies [The Transition to a Green… 2011]. The concept of green economy should be seen as consistent with the broader and older concept of sustainable development, which has been mainstreamed into the work of the United Nations. The specificity of the broader concept is associated with both its holistic character, as it encompasses the three pillars of development – economic, social and environmental – and its particular focus on inter-generational equity [Ocampo 2011, p. 16].

As has already been noted, what is essential to the concepts of green economy and green growth is the understanding that the benefits of environmental sustainability outweigh the costs of investing in and protecting the ecosystems, so that it is possible to have a win-win or “double dividend” strategy of growth with environmental sustainability, and even win-win-win or “triple dividend” strategy that also includes poverty eradication and broader improvements in social equity [Ocampo 2011, p. 19]. This is interesting from the point of view of policy makers, because they have to deal with many dimensions of the crisis and the idea of sustainable development is offering the path to transform economy but also to support citizens and environment.

Green growth is closely related to the concept of a green economy which UNEP defines as one in which “growth in income and employment should be driven by public and private investments that reduce carbon emissions and pollution, enhance energy and resource efficiency, and prevent the loss of biodiversity and ecosystem services” [Global Green… 2011].

There is a growing debate among scholars about the importance of green economy concept for future development policy. Below the author presents few of them: “The concept of a green economy is crucial for guiding policies for sustainable development, since it goes to the heart of the matter: organize economies in ways that fit local and global ecological prerequisites and long-term dynamics” [Mol, Sonnenfeld, Spaargaren in: Fulai et al. 2011, p. 65]. “A ‘green economy’ concept is an essential step towards the transition to a resilient and sustainable economy. However, it does not go far enough as long as it does not address the dilemma of
economic growth: every expansion of economic activity implies more stress on the planet’s ecosystems” [Pirgmaier in: Fulai et al. 2011, p. 67].

“The ‘green economy’ concept is useful to the extent that it engages policymakers, economists and businesses in critical dialogue with other stakeholders to compare alternative pathways for development. The comparison should then consider economic criteria alongside social, political, cultural and ecological criteria, and how ‘business-as-usual’ development and more sustainable alternatives trade off” [Downs in: Fulai et al. 2011, p. 64]. By recognizing that the economy is a subsystem of human society which is itself a subsystem of the environment, the green economy concept helps to prioritize sustainable development and resource management on decision makers’ agendas, influencing their thinking and giving them a mandate to ensure that our economic activities do not exceed environmental tipping points [Polzin, Kostka in: Fulai et al. 2011, p. 66].

6. Financial framework for green economy

The first financial support for green economy after recent crisis was established by the meeting of G20 states in 2009. It was a 3 billion USD fiscal stimulus package for recovery of economies during the crisis. The part of financing (750 million) was directed to promote green economy (clean technologies, renewable energy, energy efficiency, sustainable transport). Next steps were initiatives of OECD and UNEP to create a financial framework to support the transition towards green economy. UNEP’s Green Economy Report estimates that 2 per cent of the global GDP (currently USD 1.3 trillion per year) is needed to finance it by 2050.

We know that governments play a crucial role in the recovery process during the crisis. So the fiscal policy and public finance can also be key drivers of a country’s transition to a greener economy. It is growing awareness that the greening of economy requires also the participation of private finance. Public finance can focus on reorienting existing public resources from brown to green economic activities, while private financial institutions can direct greater flows to assets that sustain and enhance financial, environmental and social values in economy. S. Kapoor says: “Finding public money for green investment is very hard if not impossible at the time of crisis, when even basic provision of healthcare and education services is also being cut. Green expenditure is often wrongly seen as a ‘luxury’ item to be funded in good times only. While the bulk of green investments by volume will come from the private sector, public investment is a critical catalyst. Public money is crucial in galvanizing follow-on investment from the private sector, for example in R&D, risk-sharing or co-investments in projects that provide marginal return at the current carbon price or seem too risky from a purely financial perspective” [Kapoor et al. 2011, p. 15].

Recent storms demonstrate that conventional, business-as-usual investment trends may reduce economic resilience in the future by locking in a carbon-intensive
path which leads to costly environmental damage. Greening global growth is necessary to avoid costs of brown economy. It also requires a combination of public resources and public support to promote private-sector engagement, and increasing investor confidence [The Green Investment... 2013, p. 9]. We observed recent transformation of financial sectors, which is adopting itself to the new trend of greening finance. The process is powerful and fast. It means the about USD 5 trillion of global green investment is required per year to 2030 in various sectors to secure future growth [The Green Investment... 2013, p. 12].

The global new investment in renewable energy (Figure 1) shows the tendency in public and private sector of growing green orientation. A number of green markets have emerged as a result of increased public and private investments. Also examples of green markets and financial instruments emerged in the past decade. They include: carbon finance, green stimulus funds, microfinance, green bonds and thematic funds such as international and national climate funds, green infrastructure, real estate funds and socially responsible equity funds (Table 2).

![Figure 1. Global new investment in renewable energy, 2004–2011 (in USD billion)](http://about.bnef.com)


To summarize: a global green economy transformation will require substantial financial resources [UNEP 2011, pp. 588, 589):

1. Additional investments required will likely be in the range of 1 to 2.5 per cent of global Gross Domestic Product (GDP) per year from 2010 to 2050. A considerable amount of investment will be needed in energy supply and efficiency, particularly in greening the transport and buildings sectors.

2. Financial investment, banking and insurance are the major channels of private financing for a green economy. The financial services and investment sectors control trillions of dollars that could potentially be directed towards a green economy. More importantly, long-term public and private institutional investors, banks and insurance companies are increasingly interested in acquiring portfolios that minimise
environmental, social and governance risks, while capitalising on emerging green technologies.

3. The rapid growth and increasingly green orientation of capital markets, the evolution of emerging market instruments such as carbon finance and microfinance, and the green stimulus funds established in response to the economic slowdown of recent years, are opening up space for large-scale financing for a global green economic transformation.

4. The role of the public sector is indispensable in freeing up the flow of private finance towards a green economy. The governments and multilateral financial institutions should use their own resources to leverage financial flows from the private sector and direct them towards green economic opportunities.

5. Public finance is important for triggering a green economic transformation, even if public resources are significantly smaller than those of private markets. Development finance institutions can allocate significant proportions of their new lending towards financing green economy transition projects.

7. Conclusions

To summarize all issues we can ask the question what is new in debate about green economy, why we hope to get something unusual? The answer was given by T. Bigg from Boston University: “green economy is a term used by new and surprising sets of actors. Incorporation of ‘green stimulus’ elements in the financial recovery packages in 2008–2009 was not driven by an environmental lobby, but by economic calculations of the potential for job creation and economic resilience. Within many countries, anticipated scarcity in access to fossil fuels and ‘rare earth’ minerals (to pick just two examples) are driving policy and technological efforts to shape alternative futures. Private sector actors are anticipating major shifts in markets and resource availability, and planning for much lower carbon intensity production as a result. In short, the economics of scarcity and uncertainty are stimulating significant efforts to develop alternative, ‘greener’ business models and patterns” [Bigg 2011, pp. 28, 29]. There is a common interest of governments and business to finance transition to green economy. Especially the state policy and actions are important, without them the power of private sector is useless. The state role as a rule-setter and enforcer is crucial for the successful implementation of green economy. The economy-as-usual cannot get us to sustainability or secure economic and social prosperity; these can be achieved only through radical change, starting now.

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Financing the transition to green economy in Europe


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FINANSOWANIE TRANSFORMACJI DO ZIELONEJ GOSPODARKI W EUROPIE

Streszczenie: Globalny kryzys finansowy sprawił, iż powszechne stało się przekonanie, że powrót do stanu sprzed kryzysu jest niemożliwy, że konieczna jest nowa koncepcja rozwoju dopasowana do zmieniającej się globalnej gospodarki. Debata zbiegła się w czasie z tworzeniem nowej strategii rozwoju Unii Europejskiej Europa 2020 i miała znaczący wpływ na jej kształt. Centralnym elementem strategii, przenikającym wszystkie inne jej aspekty, stała się koncepcja zrównoważonego rozwoju i idei zielonej gospodarki. Wprowadzenie zielonej gospodarki wymaga stworzenia nowych instrumentów finansowych w sektorze finansów publicznych, mających kluczowe znaczenie w tej sprawie, a także aktywizacji finansów prywatnych w firmach, na rynku finansowym i w bankach.

Słowa kluczowe: zrównoważony rozwój, zielona gospodarka, zrównoważone finanse, kryzys globalny.
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FINANCIAL CAPABILITY DEVELOPMENT  
AS THE RESPONSIBLE FINANCE INSTRUMENT  
COUNTERACTING FINANCIAL EXCLUSION  

Abstract: Financial exclusion is manifested by difficulties encountered in accessing indispensable financial products and services in an adequate form and adjusted to the needs of particular individuals. One of its underlying reasons is the low level of public financial literacy. In many countries diversified inclusion activities are undertaken among which also these focused on financial capability development are conducted. The objective of the hereby paper is an attempt to identify and present the role to be played, in this area, by major stakeholders of responsible finance, i.e. the government and financial institutions.  

Keywords: financial exclusion, responsible finance, financial capability.

1. Introduction  
Sustainable development was defined in the report issued by the World Commission on Environment and Development. It states that sustainable development means such “development which meets the present generation needs without compromising the ability of future generations to meet their own needs.” H. Rogall extended this thought by adding his comment that sustainable development is manifested in pursuing opportunities to provide all contemporarily living generations, as well as the future ones, with sufficiently high ecological, economic and socio-cultural standards, within nature tolerance limits, by implementing the principle of justice both within and between generations [Rogall 2010, p. 25]. On the other hand, referring to the ideas presented by the recognized scientists J. Rawls and A. Sen, sustainable development economy considers the principle of justice being implemented in a society if its population experiences equal chances for a happy life and all its members are guaranteed human rights being observed and living needs being met [Rogall 2010, p. 45]. However, there are certain obstacles in following the above presented goals, such as social inequality and social exclusion manifested by difficulties in accessing indispensable financial products and services in an adequate form and adjusted to the needs of particular individuals. Both in national and
international scale diversified inclusion oriented activities are carried out, aimed at financial exclusion reduction. Some of them focus on raising financial literacy of the public. In the perspective of phenomena occurring in financial system the purpose of the paper is to identify and present the role to be played by major stakeholders of responsible finance in the area of financial capability development.

2. Low financial literacy as the reason of financial exclusion

Financial exclusion refers to the process in the course of which citizens experience problems in accessing and/or using financial products and services, at the mainstream market, adequate to their needs and allowing to live a normal life in a society [Financial Services... 2008, p. 9]. The scale of this phenomenon is measured, among others, by banking penetration ratio which, in case of Poland, amounts to about 70% and its global level is 50% [Demirgüç-Kunt, Klapper 2012, pp. 11, 52]. This measure illustrates how many people (population percentage aged 15+) do not, in fact, have their personal bank account – 30%, however, does not identify the underlying reasons, while there is a whole spectrum of causes responsible for the absence of such bank account. They are for instance certain physical barriers preventing it, i.e., no bank branch close to the place of residence, however, it can also result from the lack of willingness to open it motivated by reluctance to enter into cooperation with a bank, or a negative balance of benefits and costs resulting from having a bank account. Voluntary resignation from active participation in the financial market is referred to as financial self-exclusion.

Certain social groups are less, while others more, vulnerable to become financially excluded. The research ordered by the European Commission confirms that the latter group consists of poor or homeless people, women, senior citizens, youth, rural inhabitants, individuals presenting low education level [Financial Services... 2008, p. 30]. Nevertheless, I. Newton, a wealthy and well educated man, which should make him resistant to financial exclusion, ran into financial difficulties by investing a vast amount of his assets in pyramid schemes. The presented history confirms the significance of low financial literacy in determining financial exclusion. Apart from this one, more financial exclusion causes can be listed: low income, age, gender, no access to financial institutions branches, no cash dispensers, etc.

The level of financial literacy in many societies is unsatisfactory. This conclusion can be drawn after analysing survey results ordered by OECD and carried out in 14 countries at four continents, among others, in the Czech Republic, Malaysia, Germany, Peru, Poland, the Republic of South Africa. The respondents were asked questions about their financial knowledge, behaviours and attitudes referring to diversified aspects of personal finance (Table 1).

1 Research results regarding the level of Polish population financial awareness are also presented in [Iwanicz-Drozdowska 2011] and [Maison 2013].
Table 1. The results of financial literacy measurement in selected countries (percentage of correct answers)

<table>
<thead>
<tr>
<th>Selected question/statements</th>
<th>The Czech Republic</th>
<th>Germany</th>
<th>Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suppose you put $100 into a savings account with a guaranteed interest rate of 2% per year.</td>
<td>60</td>
<td>64</td>
<td>60</td>
</tr>
<tr>
<td>You don’t make any further payments into this account and you don’t withdraw any money.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>How much would be in the account at the end of the first year, once the interest payment is made?</td>
<td>60</td>
<td>64</td>
<td>60</td>
</tr>
<tr>
<td>[...] and how much would be in the account at the end of five years?</td>
<td>32</td>
<td>47</td>
<td>27</td>
</tr>
<tr>
<td>Would it be: a) More than $110 b) Exactly $110 c) Less than $110 d) Or is it impossible to tell from the information given</td>
<td>32</td>
<td>47</td>
<td>27</td>
</tr>
<tr>
<td>Pay bills on time</td>
<td>85</td>
<td>96</td>
<td>78</td>
</tr>
<tr>
<td>Financial product choice after gathering some info</td>
<td>28</td>
<td>52</td>
<td>32</td>
</tr>
<tr>
<td>Financial product choice after shopping around and using independent info or advice</td>
<td>10</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>I tend to live for today and let tomorrow take care of itself</td>
<td>69</td>
<td>65</td>
<td>45</td>
</tr>
</tbody>
</table>

Source: author’s compilation based on [Atkinson, Messy 2012, pp. 7–9].

Concerns are raised by the fact that 40% of adult Poles do not know how to calculate the amount of interest payable on deposits using simple percentage and as many as 73% of respondents do not know what the capitalization of interest is and how it can influence interest levels. Additionally, research results confirm that the majority of people undertake hasty decisions regarding a particular financial product purchase without making any comparisons of the market available financial offer. Such attitudes put consumers at a disadvantage of choosing an unsuitable product, inadequate for their needs. Only 2% of Poles confess to taking advantage of services provided by financial consultants, which may seem surprising, since a person lacking sufficient knowledge should, in the first place, refer to specialists for advice. Such behaviour can be explained by the belief shared by many people that the financial knowledge they actually present is fully sufficient. The results of studies conducted by D. Maison in 2009 (see [Maison 2013, pp. 183–201]) indicate a substantial gap occurring between objective, actual, subjective and intentional knowledge presented by Polish population.

Low financial literacy results mainly from high level of financial market development which is difficult to follow by average consumers. The level of financial products/services complexity increases, accompanied by technical progress, whereas electronic distribution channels have extended their spectrum of possibilities in accessing financial institutions offer. What is more, many people do not have the
skill of planning their financial future effectively, or choosing products which meet, as opposed to those which do not meet, their needs. All these factors finally take their toll and make consumers get into financial problems or, for fear of the unknown, surrender to financial self-exclusion. It should also be mentioned that poor financial literacy deepens the phenomenon of information asymmetry, considered as one of the reasons for market failure, i.e. the situation in which market mechanism does not guarantee the optimal allocation of resources. The representatives of sustainable development economy accept market failure as standard and reject the idea of market self-healing forces, thus arguing that government has a vital role to play in reducing information asymmetry (more in [Solarz 2011, pp. 313–315].

3. The concept of responsible finance

The idea of responsible finance originates from the concept of responsible lending as the reaction to predatory lending sanctioned in many countries in the 60s and 70s of the 20th century. Currently the adjective “responsible” is more and more often used not only with reference to lending, but also to rendering other financial services by the financial institutions.

Responsible finance is perceived in various ways. Owing to the fact that this concept is still at its early stage of development there is no single, generally accepted, interpretation of this theory. The World Bank report published in 2011 informs that the paramount objective of responsible finance concept is its contribution to the promotion of sustainable development idea and thus the activities performed within its framework should bring about beneficial results for economy, society and natural environment in the scale of individual countries and in an international perspective, while access to an extensive spectrum of financial services, covering also those referring to savings, insurance, credits offered to households and enterprises in a responsible manner, presents one of the most important components of sustainable growth and development [Advancing Responsible... 2011, p. 1].

According to the authors of the quoted above study, responsible finance is manifested in coordinated activities undertaken in the financial system by public and private entities aimed at influencing financial institutions and their clients in the way which ultimately contributes towards establishing more inclusive and fair financial market. Basic areas, in which responsible finance oriented activities are conducted, refer to the following ones: consumer protection, a responsible financial services provider and the development of financial literacy among consumers (see Figure 1).

In 2003 OECD initiated an international programme for financial education, which consists in organizing extensive activities aimed at popularizing knowledge and creating positive habits among citizens resulting in proper decisions related to their personal finance management, as well as their ability to take advantage of their financial means according to their current and future needs [Iwanicz-Drozdowska 2011, p. 13]. One of the after-effects of this programme was the document, published
in 2005, which presents principles and good practices in the field of financial education [The Recommendation on Principles... 2005, pp. 1–7], among which the following were listed:

1) financial education should be actively supported and available as a life-time, ongoing and continuous process;
2) financial education programmes should be adequately adopted to particular needs of individuals who take advantage of them;
3) consumers should acquire knowledge about financial matters relatively early, adequate national authorities should consider including such knowledge into education curricula as a compulsory subject;
4) financial education programmes should cover tools raising their participants’ literacy about the need to improve their financial knowledge and extend their skills in risk assessment;
5) knowledge in financial issues offered by financial institutions should be provided in fair, transparent and unbiased manner;
6) persons responsible for financial education should receive sufficient means and obtain adequate practical skills in order to carry out effective trainings;
7) coordination of interested parties, at national level, should be enhanced in order to establish clear division of tasks and facilitate the exchange of experiences;
8) entities offering financial education programmes should periodically evaluate and, if necessary, update the implemented programmes so that they can always offer the best possible solutions.

Figure 1. The concept of responsible finance
Source: [Advancing Responsible... 2011, p. 7].
Three years later the International Network on Finance Education (INFE) was established, which promotes and facilitates cooperation in financial education worldwide. This organization was bringing together over 200 institutions from 90 countries in 2012. Its activities focused on raising literacy regarding the vital role of financial education in fighting financial exclusion resulted in developing, in many countries, national strategies for financial education, among others in Austria (introduced in 2011), Brazil (2010), the Czech Republic (2010), Ghana (2009), India (2006, 2010), Japan (2005), Great Britain (2003), the U.S.A. (2006, 2011) [Grifoni, Messy 2012, p. 12].

4. The government and its role in developing public financial capability

One of the entities playing crucial role in developing financial capability of citizens is the state understood as the government, local authorities, central banks, regulators or consumer protection agencies. Their involvement in undertaking inclusion-oriented activities takes the form of, e.g., nationwide literacy campaigns. For example, the purpose of a large-scale action “Before you sign” is to attract public attention to risks associated with signing financial contracts, including mainly “instant cash,” high-interest loans and using financial services not subject to any public regulations. This initiative is organized with media support, i.e. radio, TV, press and the Internet. The following public institutions co-organize such actions: Bank Guarantee Fund, Polish Financial Supervision Authority, the Ministry of Finance, the Ministry of Justice, the National Bank of Poland, Police and the Office of Competition and Consumer Protection. Another program focused on education and enhancing financial capability of Polish citizens is entitled “The Academy – Available Finance.” It has been planned by the central bank for the period of 2012–2015. In the first year of its functioning senior citizens were its main addressees and beneficiaries.

The government, and in fact the Ministry of Education, has a chance of introducing, as part of school syllabuses at different education stages, certain elements of personal finance knowledge. Teachers find “Dolceta” portal very useful, which functions under the auspices of the European Commission. The tab “financial education” offers ready to use sets including lesson plans, games or quizzes adequate for different age groups. Additionally, adult individuals can use this website as a self-learning facility since it includes a lot of information explaining crucial financial issues.

The necessary condition to make correct, knowledgeable financial decisions is consumers’ access to reliable information about a particular product. It should be offered to a client by financial institutions in the way which facilitates comparisons. The government, as the regulatory authority, can impose the obligation on financial sector entities to inform their clients in a proper manner about their offer, e.g. the Consumer Credit Act in force in Poland (DzU 2011 nr 126, poz. 715).
Summarizing the role played by the government in developing public financial capability, attention should be paid to both strengths and weaknesses of these activities (see Figure 2).

**Figure 2.** Strengths and weaknesses of inclusive activities aimed at developing financial capability carried out by the State government

Source: author’s compilation.

The government has much work to do in the area of financial capability enhancement. Its undisputable advantage is the possibility of introducing changes in educational syllabuses. Social campaigns usually earn much public confidence as being objective and not including components which encourage the purchase of particular financial products. On the other hand, costs of educational activities are listed among weaknesses, but it is obvious that any initiative has to incur costs and should be referred to as investment in the future. The increase of financial literacy among citizens can, in the long-term perspective, prevent e.g. excessive indebtedness which pushes people outside the mainstream market of financial products and services and results in their turning to shadow banking institutions offering high-interest loans. In time they become trapped in a debt loop, their poverty escalates, they have to be covered by social benefits which, beyond any doubt, constitute a burden for the State budget.

5. Financial institutions and their role in developing public financial capability

Responsible finance, interpreted from the perspective of financial products and services providers, refers to the implementation of Corporate Social Responsibility (CSR) concept. The European Commission published Green Paper on CRS in 2011
where Corporate Social Responsibility is defined as the concept following which enterprises voluntarily implement strategies incorporating public interest, environment protection, as well as relations with stakeholders [Green Paper... 2001, p. 6]. Therefore, social responsibility is manifested in business not only by meeting formal requirements resulting from legal and economic rules, but also in undertaking socially expected and desirable activities. While observing market active financial entities it is noticeable that more and more of them incorporate CRS strategy in their business strategies. Among the initiatives they undertake there are also these focused on financial capability, which thus enhances fighting against financial exclusion (see Figure 3).

| Bank Foundation, memorial of L. Kronenberg (at City Handlowy) | • programmes entitled: “My finance” or “From class to cashbox” addressed to young people |
| BPH Bank | • “A woman in the world of finance” campaign aimed at educating and supporting women in achieving financial independence |
| PZU Group | • “Life at 100%” campaign covering long-term savings, pension funds, investment, insurance protection education |
| Association for the Promotion of Financial Education (at SKOK) | • “Live financially!, i.e. how to manage personal finance” project addressed to secondary schools students |
| PKO BP | • “Today I save in SKO – tomorrow in PKO” project addressed to young people |

**Figure 3.** Selected CSR initiatives undertaken by financial institutions in Poland aimed at developing financial capability of society

Source: author’s compilation.

Projects implemented by financial institutions take the form of presentations, workshops, competitions, cover all personal finance areas, i.e. current household budget management, lending, saving or investing. These initiatives are addressed at different groups of clients exposed to financial exclusion, e.g. women – BPH Bank campaign, young people – e.g. “Today I save in SKO – tomorrow in PKO” project. School Savings Banks (SKO – Szkolna Kasa Oszczędności) represent the oldest financial education programme in Poland. Its history goes back to the 20s of the previous century. New SKO is identified with: a product offer dedicated for schools, for parents’ councils, the form of practical learning how to use a bank account addressed at pupils under 13 years of age, the set of educational materials for teachers, students and parents, safe, graphically attractive and suitable for children online banking service. At the end of March 2013 about 150 000 pupils from almost 2000 schools, all over Poland, were using SSB facility.
Summarizing the role played by financial institutions in developing financial capability of society strengths and weakness of these activities should be identified (Figure 4).

Figure 4. Strengths and weaknesses of inclusive activities aimed at developing financial capability carried out by financial institutions within the framework of CSR

Source: author’s compilation.

Financial institutions have direct contact with consumers, especially in the crucial moment of making financial decisions, namely while purchasing a particular financial product/service. If the service provider implements the idea of responsible finance he/she should offer advice and support to clients while making their choices, as well as take due care of the provided financial services quality. Such attitude is, by all means, justified if it refers to a product offered by a given bank, however, one cannot expect a financial institution employee to recommend his/her competitor’s products to his/her clients, even if it is more adequate for a particular household. The occurring conflict of interests results in the fact that banks fulfil their role, as financially responsible entities, by presenting their offer in a reliable way leaving the ultimate product choice to a client.

6. Conclusions

In summary of the above presented discussion it has to be emphasized that financial exclusion can constitute an actual barrier in accessing financial institutions’ offer, or may be of voluntary nature when people themselves resign form taking advantage of such facility. If the decision about self-exclusion it taken up independently and knowledgeable and is accompanied by an undisturbed access to the underlying information, then it does not constitute the area for inclusion-specific activities. However, if it represents the effect of lacking knowledge about the advantages
Financial capability development counteracting financial exclusion

resulting from active usage of financial products and services, presents the consequence of previous incorrect financial decisions, or the reaction to bad experiences in contacts with financial intermediaries, then it should be identified as the problem worth taking care of. Developing financial capability of society is one of the activities listed among instruments applied in the course of inclusive activities. An important role, in the area of responsible finance, is also played by the government, providers of financial products and services and clients themselves who must be willing to extend their knowledge and financial skills. In order to achieve the intended effect, i.e. the establishment of an inclusive and fair financial market, requires coordinated efforts of all entities which are not indifferent to the problem of financial exclusion.

References


KSZTAŁTOWANIE ZDOLNOŚCI FINANSOWYCH JAKO INSTRUMENT ODPOWIEDZIALNYCH FINANSÓW PRZECIWDZIAŁAJĄCY WYKLUCZENIU FINANSOWEMU

Streszczenie: Wykluczenie finansowe przejawia się trudnościami w dostępie do niezbędnych produktów i usług finansowych w odpowiedniej dla poszczególnych osób formie. Jedną z jego przyczyn jest niski poziom świadomości finansowej społeczeństwa. W wielu krajach podejmowane są wielokierunkowe działania inkluzyjne, a wśród nich takie, które związane są z kształtowaniem zdolności finansowych. Celem niniejszego artykułu jest próba zidentyfikowania i przedstawienia roli, jaką mogą odegrać w tym obszarze główni interesariusze odpowiedzialnych finansów, tj. państwo oraz instytucje finansowe.

Słowa kluczowe: wykluczenie finansowe, odpowiedzialne finanse, zdolności finansowe.
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SOCIAL ASPECTS OF BANKS’ ACTIVITY 
IN THE CONTEXT OF UNDERSAVING PROBLEM 
OF POLISH SOCIETY

Abstract: The observation of commercial banks’ activity in Poland proves that modern 
banking institutions have been implementing CSR in their business operations and strategies 
in recent years. Social dimension of these initiatives is focused on taking into consideration 
crucial social problems, e.g. social exclusion or undersaving. The aim of the paper is the 
review of initiatives taken by commercial banks in 2012 contributing to building right savings 
and retirement attitudes in community, particularly in the area of private financial prudence.

Keywords: undersaving, CSR in commercial banks’ activity, financial prudence.

1. Introduction

Recently Corporate Social Responsibility (CSR) has been perceived as an important 
aspect of entities activity. Some companies have treated CSR as a crucial element to 
gain competitive advantage, an effective strategy allowing for generating higher 
profit, the recipe for firm’s success – through implementation of environmental, 
community, clients and employees concerns into business operations and core 
strategy, while sceptics have viewed it as a tool of publicity only or as philanthropy 
generating costs.

Discussion about CSR frequently involves a problem of the conflict between 
a social responsibility and profit maximization. The questions arise if these two 
terms are not contrary or if bank will be engaged in the socially responsible activity 
replacing its traditional goal – profit maximization. The renewed interpretation of the 
European Commission published in October 2011 can be treated as an argument 
dispelling these doubts. The new Commission approach is highlighted by the 
following statement [European Commission 2011, p. 3]: “To fully meet their social 
responsibility, enterprises should have in place a process to integrate social, 
environmental, ethical human rights and consumer concerns into their business 
operations and core strategy in close collaboration with their stakeholders with the 
aim of:
maximizing the creation of shared value for their owners/shareholders and for their other stakeholders and society at large;

identifying, preventing and mitigating their possible adverse impacts.”

Making the maximum possible profits for the shareholders is the commercial objective and it can be termed as the leading motivation for business practice, but modern organizations should be more concerned with Corporate Social Responsibility rather than focusing on wealth maximization only. CSR highlights the fact that core business may be profit maximization, but business ethics requires responsibility for making such profits [Ceil 2012, pp. 3, 11].

According to ISO 26000 the CSR key areas constitute: organizational governance, human rights, labour practices, the environment, fair operating practices, consumer issues as well as community involvement and development [International Organization for Standardization 2009]. One of the aspects of this activity is exploring the opportunities for developing innovative products and services supporting sustainable consumption patterns and lifestyles that contribute to societal wellbeing.

The observation of banks’ activity in Poland proves that modern banking institutions have been implementing CSR in their business operations and strategies in recent years. It seems that banks perceive necessity of taking different stakeholders’ expectations into account in their performance and view this concept as one of effective ways to enhance damaged – as a result of crisis – reputation of public trust institutions and improve their competitiveness.

In this context the aim of this article is the review of initiatives taken by commercial banks in 2012 contributing to building right savings and retirement attitudes in community, particularly in the area of private financial prudence.

2. Problems relating to undersaving in Polish society

One of the fields of CSR in banks constitutes social innovations. Thanks to these innovations, banking institutions can improve competitiveness by taking actions which to a greater extent meet the consumers’ expectations. Social dimension of these initiatives is focused on taking crucial social problems, e.g. undersaving or social exclusion, into consideration by banks in their activity. Actions contributing to improving savings level, which are taken by this kind of institutions, support creation of right savings and retirement attitudes in community with special attention to young people.

In accordance with the author’s own research conducted from 27 February till 1 March 2013, in cooperation with Interactive Market Research Institute on the sample of 1000 respondents,1 27% of respondents did not have any savings, whereas only

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1 The research was performed by means of CAWI (Computer Assisted Web Interview) on the sample of 1000 respondents aged 15+. The sample structure was adjusted using analytical weight to reflect the structure of Polish Internet users aged 15+ regarding the key qualities related to the subject matter of the study. The sample was selected following random-quota method.
9% of the studied sample accumulated retirement savings. The level of savings is of vital importance in both micro- and macroeconomic perspective. According to D. Korenik [Korenik 2009, pp. 285, 286] one of the significant transformations in the social environment of banking institutions and exerting crucial impact on the level of social savings is “the omnipresent in Europe, including Poland, model of consumer society” generating a significant threat for young people in particular – i.e. also those who currently are, or will be in the future, clients of banking institutions or even their staff. Attracting too much attention to the existing situation only and the prevailing preference for current consumption exerts negative impact on the saving process. Having concentrated on the noticeable “disadvantages,” as the result of postponing consumption in time, many individuals do not appreciate extensive advantages resulting from the accumulation of savings.

Particularly important form of saving is the one focused on accumulating adequate retirement means. Long-term perspective of accumulating financial resources for the old age period of life implies that such decisions are subject to a large degree of uncertainty (with reference to professional, health-oriented or family situation), result in problems of making the underlying calculations, which in consequence contributes to the choice overload occurrence. Having considered the fact that distant consequences resulting from the absence of accumulated retirement savings adequate level, which could facilitate the expected life quality after the professionally active period of life is finished, seem to be to a certain extent of “immaterial”, vague, or probabilistic nature – it has been observed that such approach creates an opportunity to become influenced by a variety of heuristics, frequently resulting in sub-optimal, irrational financial decisions (more in: [Swacha-Lech 2012]).

However, in the situation of aging societies the problem of public expenditure significant increase, resulting from the growing liabilities for retirement (an annuities) schemes, and additionally related to the growing demand for support from the state budget of institutions responsible for social and health care of senior citizens, raises serious concerns. In this context all possible initiatives enhancing the creation of private financial prudence and awareness are of particular significance [Korenik 2009, pp. 287, 288].

The following of the temptation of consumerism, in the situation of savings’ absence, may also result in social indebtedness. Individual impatience and the concentration on purely current existence may thus result in making decisions giving way to indebtedness, while in fact it often happens that it is the saving process which frequently constitutes more rational – associated with risk reduction and cheaper – alternative for financing the purchase of goods and services of higher value.

In view of the negative social changes presented above, banks as well as other financial institutions face the need to undertake activities facilitating the improvement of social wealth by means of initiatives which, in consequence, result in an increased level of Polish population savings.
3. Commercial banks’ activity contributing to the creation of financial prudence

The activities performed by banking institutions, functioning as an incentive to create private financial prudence in the society, are concentrated on such practices as: (1) the promotion of saving, (2) increasing financial knowledge and awareness of Polish population in this matter, and (3) adapting particular saving products to actual behaviour of clients.

The activities undertaken by banks, in order to promote saving, usually refer to long-term initiatives. Among such initiatives, within the framework of which adequate operations were also performed in 2012, the following can be listed [Forum Odpowiedzialnego Biznesu 2012]:

– the Programme of Economic Education for the Youngest – activities undertaken by PKO Bank Polski SA; the initiative is aimed at offering knowledge in banking and finance to children, developing their saving habits and establishing their social, civic and ecological awareness (School Saving Banks function within the framework of this programme);
– A Week for Saving – The World Savings Day – the project implemented by Bank Handlowy w Warszawie SA; the initiative is focused on promoting saving among Polish population, as well as the propagation of developing skills helpful in rational management of individual financial resources;
– From a Penny to a Pound – the action implemented by Bank Handlowy w Warszawie SA; the initiative is addressed to kids in order to inform them about different forms of saving and to develop their positive habits in managing financial resources available to them;
– educational campaign “Bank with a class. The entire knowledge about banking” – activities undertaken by CreditAgricole Bank Polska SA; the initiative aimed at encouraging kids to save money by means of playing and in a funny, amusing and enjoyable way introducing them to the world of finance;
– the campaign entitled “We have only as much savings as our bank account shows” – the project carried out by ING Bank Śląski SA; the initiative refers to promoting savings by means of an extensive advertising campaign emphasizing the fact that Poles are frequently “trapped by the illusion of saving” and the introduction of a special savings bank account offer with higher interest rate (“Bonus at the start” for new clients and “OKO Bonus” for the absent ones) [http://media.ingbank.pl/pr/223774/tylko-tylko-mamy-oszczednosci-ile-mamy-na-koncie].

The initiatives listed above represent direct incentives focused on the development of savings accumulation habit in the society, on raising awareness of the need to keep saving and on emphasizing the resulting advantages. School Saving Banks (SSB) are a very good practical example in this matter. The idea has been arranged and implemented by PKO Bank Polski SA. In accordance with the assumption followed
by the bank as the result of such programme, students who participate in it become not only accustomed to making systematic savings or obtain knowledge about the saving process and the role of money in contemporary reality, but also learn practical skills in using banking services (the first Polish online banking service addressed to children under 13 has been functioning within the framework of SSB) [http://www.pkobp.pl/uczniowie-i-studenci/szkolne-kasy-oszczednosci/o-sko/].

The second type of listed practical activities, facilitating individual development of financial awareness, is focused on initiatives aimed at raising an overall financial knowledge level. Banks intend to prepare participants of these programmes to make beneficial, justified and correct financial decisions supported by adequate knowledge of various products, detailed rules of their functioning or types of risks associated with personal finance management, also covering savings accumulation. The selected projects carried out in this area by banking institutions in 2012 are presented in Table 1.

Table 1. The selected initiatives, carried out by commercial banks in 2012, aimed at raising financial knowledge and awareness level

<table>
<thead>
<tr>
<th>Type of initiative</th>
<th>Bank’s name</th>
<th>Project objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>My finance</td>
<td>Bank Handlowy w Warszawie SA</td>
<td>preparing young people to make rational and individually beneficial financial decisions, supported by the continuously updated knowledge</td>
</tr>
<tr>
<td>The first million (online game)</td>
<td>Bank Handlowy w Warszawie SA</td>
<td>education related to finance and entrepreneurship addressed to different social groups (middle school students, secondary school students, university students and adults)</td>
</tr>
<tr>
<td>Developing Financial Independence among Women</td>
<td>Bank Handlowy w Warszawie SA in cooperation with the Centre for Women’s Rights</td>
<td>extending knowledge, raising competencies and skills in personal finance management related to reasonable usage of loans and credits offered by banks, household budget management and financial future planning for women affected by violence and abuse</td>
</tr>
<tr>
<td>From a class to a cashbox</td>
<td>Bank Handlowy w Warszawie SA in cooperation with the Polish Central Bank, the Foundation of Junior Entrepreneurship and Gazeta Wyborcza</td>
<td>the purpose of 4th edition of the competition was to familiarize primary level students with principles underlying the functioning of basic capital market instruments, stock exchange mechanisms and savings accumulation problems</td>
</tr>
<tr>
<td>The European Leaders (educational game)</td>
<td>Bank Zachodni WBK SA</td>
<td>basic knowledge dissemination in finance and entrepreneurship among students of Polish schools and youth of Polish origin living in Lithuania and Ukraine</td>
</tr>
</tbody>
</table>

Source: author’s compilation based on [Forum Odpowiedzialnego Biznesu 2012].
The analysis of initiatives carried out by banks in the field of raising financial awareness and education level indicates active involvement of Bank Handlowy w Warszawie SA which, by means of Kronenberg Bank Foundation projects, supports public benefit activities in the sphere of education and local development. The Foundation conducts research related to important issues in economics and finance, including the cyclically performed study entitled: “The attitudes of Polish population referring to making savings.”

The online game called “The first million” was initiated in response to the identified, based on the conducted research, problems concentrated on: the low level of population engaged in making regular savings, insufficient level of economic and financial knowledge (frequently based on clichés), as well as unsatisfactory effectiveness of budget management by the majority of Polish households. Following bank’s intention “the game in a simplified but, at the same time, universal way is supposed to present the world of finance and individual household investments. Combining theoretical knowledge with virtual public life management skills results in learning by means of playing – as the form of entertainment, referred to as edutainment.” On the basis of this game within the “Public shareholding” programme, the Ministry of Treasury has also organised the competition (the application enables not only rivalry but investigation of an increase of users’ economic and financial knowledge too).

Particularly worthy of note is the project “Developing Financial Independence among Women.” In this way the bank undertook the task of finance education of 200 women affected by violence and abuse. Twenty employees and partners of the Centre for Women’s Rights advised in the low-social-finance area and organised coaching for 300 women, as well as worked out a handbook which was published in 7000 copies and created a new tab which was dedicated to financial education. Another important result of this project was the recommendations related to the introduction of financial education into antiviolence and antidiscrimination politic assumptions.

The initiatives carried out by banking institutions, in order to enhance education and financial awareness as well as activities specifically focused on savings promotion, represent practices by all means worth replication. As confirmed by the results of research conducted by the authors of the publication entitled Education and financial awareness. Experiences and perspectives [Iwanicz-Drozdowska (Ed.) 2011], the level of financial awareness among Polish population should be regarded as unsatisfactory, whereas the analysis of educational initiatives undertaken by financial institutions illustrates that they are also not free from certain imperfections. In the perspective of such observations these activities are of particular significance in the context of attempting to create knowledgeable clients who are capable of making most effective financial decisions.

However, as some authors who deal with the problem of voluntary retirement savings indicate, financial education does not always result in an initially intended effect owing to inadequate, passive attitude of training participants, incorrect opinion
that their knowledge is more advanced than it actually is, insufficient concentration on the problems discussed. S. Bernatzi and R.H. Thaler have observed that the results of tests checking financial knowledge, presented during staff training organized free of charge and performed before and after the training, were almost identical [Bernatzi, Thaler 2007]. Additionally, as J.R. Agnew emphasizes, the improvement of financial knowledge level resulting from such training is not always manifested in undertaking substantial activities [Agnew 2010, p. 588]. There are various barriers which have to be overcome while attempting to carry out the set objectives, e.g.: behavioural inclinations, heuristics, inertia, the absence of self-control and strong will (more in: [Swacha-Lech 2012]).

In the discussed context it seems that an effective solution, which supplements banking activities performed within the framework of education and financial awareness level upgrading, may result in designing an appropriate savings product by taking advantage of mechanisms which by means of converting qualities, having negative impact on savings accumulation process, into positive attributes, result in an increased savings level. Supporting initiatives focused on individual financial education and awareness strengthening, carried out by supplementing savings-oriented products with specific properties, which allow overcoming many behavioural inclinations resulting in the absence or insufficient level of accumulated means, may help in overcoming problems associated with, among others, the failure in meeting declarations made directly after participating in trainings. Adequate financial products’ designing may therefore be regarded as the next step in the process of Corporate Social Responsibility implementation by banks.

The list presented below gives examples of products designed in the discussed manner – with the relevant mechanism supporting saving – which were available in banking institutions’ offer in 2012:

− mSaver/MultiSaver – products offered by BRE Bank SA (mbank/MultiBank); they allow clients to save money by accumulating means during: transactions paid by debit or credit cards, making transfers and cash withdrawals from cash dispensers and offering, during such activities, opportunities for making individual decisions about the value of the set aside amounts (rounding the amounts spent to 10 PLN, interest rate specification from the range of 1–15%, or a fixed amount in the range of 3–10) [http://www.mbank.pl/oszczednosci/regularne-oszczedzanie/msaver/index.html; http://www.multibank.pl/dla_ciebie/centrum_oszczedzania/rs/multisaver];

− I keep saving round the clock – the service offered by CreditAgricole Bank Polska SA; allows clients to put aside means during non-cash transactions made using credit cards issued to one of 3 options offered by a bank account “SIMPLE saving bank account,” by rounding the amounts of these transactions up (amounts resulting from such rounding are saved and a client has the choice to what amount the rounding up is done – up to 0.50, 1 or 5 PLN) [http://www.credit-agricole.pl/klienci-indywidualni/konta/konto-prostooszczedzajace#oszczedzaj];
- Capital Bank Account – the product offered by Bank BPH SA; it enables clients to save amounts, extending the set limit of means at the bank account (min. 1500 PLN), in the related savings account, called “Working Savings Account,” where the minimum amount of savings is set at the level of 50 PLN [http://www.bph.pl/repo/bph/indywidualni/konta/dokumenty/Zal1_Regulamin_ROR_FINAL_22112011.pdf];

- Very personal bank account – a product offered by Bank BGŻ SA; it allows customers to set a limit and the means extending this limit are automatically, without charge transferred into the related savings account (the capitalization is at the end of every months, the withdrawals are free) [http://www.bgz.pl/bankowosc_osobista/biezace_zarzadzanie_finansami/automatyczne_oszczedzanie.html];

- Systematically Saving Bank Account – a product offered by ING Bank Śląski SA; it allows clients to receive a bonus in the form of increased basic interest rate for regular saving on condition that an average monthly balance increases by minimum 100 PLN comparing to an average monthly balance in the previous month [http://www.ingbank.pl/indywidualni/oszczednosci/systematycznie-oszczedzajace-konto#tab=1].

Four out of five listed initiatives focus on the saving process automation. Automatic saving allows for fighting inertia or the absence of self-control and strong will, since these properties are frequently perceived as the crucial reasons responsible for the absence of substantial activities carried out by individuals who are, in fact, aware of the need to accumulate savings for a particular purpose. Saving process automation also helps in overcoming the frequently presented attitude that saving is a sort of “luxury” reserved exclusively for wealthy people and supports the creation of a saving habit.

4. Conclusions

To sum up, it has to be emphasized that the discussion presented above indicates certain activities performed by Polish banking sector institutions in accordance with CSR concept and aimed at increasing the level of savings in society. Practical activities, carried out by banking institutions in order to enhance private financial prudence among population, are concentrated on the following projects:

1) the promotion of savings (especially among the youngest citizens) – the establishment of savings habit, becoming aware of the need to save money and the resulting advantages, gaining experience in contacts with banking institutions and the influence on getting familiar with banking procedures, the elimination of unjustified concerns related to banking services usage, the influence on improving financial knowledge and awareness, as well as an indirect opportunity to establish confidence in banking institutions;
2) the extension of financial knowledge and awareness among Polish population with reference to effective personal finance management – including the significance of savings, the assessment of saving products attractiveness, consumer protection, as well as the specific nature and properties of financial services and products facilitating effective accumulation of savings and also in relation to knowledgeable and responsible approach towards taking advantage of loans and credits facility;

3) the adaptation of saving products to actual client behaviour – including certain mechanism in saving products which, by means of converting properties exerting negative influence on the savings accumulation process into positive attributes, finally result in an increase level of savings.

Commercial banks, by taking advantage of the listed activities, contribute to the mitigation of certain negative phenomena occurring in Polish society, i.e.: consumerism, insufficient level of accumulated savings – including retirement savings, and also social exclusion. The presented initiatives aim at reducing or even eliminating an over-excessive individual focus on the current situation and the short-sightedness, they teach patience, help to overcome the problems connected with the self-control and willpower, as well as emphasize the significance of maintaining proper level of savings.

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SPOŁECZNE ASPEKTY DZIAŁALNOŚCI
BANKÓW KOMERCYJNYCH W KONTEKŚCIE PROBLEMU
ZBYT NISKIEGO POZIOMU OSZCZĘDNOŚCI POLAKÓW

Streszczenie: Obserwacja działalności banków komercyjnych w Polsce w ostatnich latach dowodzi, że współczesne instytucje bankowe wprowadzają już CSR do swej działalności zarówno operacyjnej, jak i strategicznej. Społeczny wymiar tych inicjatyw koncentruje się na uwzględnianiu przez banki kluczowych problemów społecznych, takich jak np. wykluczenie społeczne czy niewystarczający poziom oszczędności społeczeństwa. Cel niniejszego artykułu stanowi przegląd wybranych inicjatyw podjętych przez banki komercyjne w 2012 r., przy czyniających się do budowania w społeczeństwie właściwych postaw w odniesieniu do obowiązku oszczędzania, szczególnie w kontekście prywatnej zapobiegliwości finansowej.

Słowa kluczowe: niewystarczający poziom oszczędności, CSR w działalności banków komercyjnych, zapobiegliwość finansowa.
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ARBITRAGE IN EQUITY MARKETS

Abstract: This paper tackles the problem of equity arbitrage on London Stock Exchange in years 1985–2012. The relationship between spot and future prices (the mispricing) has been analysed on the basis of FTSE100 index. Recently, the spread between spot prices and present value of the future prices has increased. This increase in mispricing can be perceived as evidence that could lead to an arbitrage opportunity. At the same time one could argue that none such opportunity exists as the mispricing merely reflects the change in the risk free rate proxy used by market participants. Furthermore the paper identifies the impact of the day-of-the-week effect on mispricing.

Keywords: arbitrage, equity markets, futures, derivatives.

1. Introduction

Efficient market hypothesis assumes that one cannot obtain sustainable abnormal returns, and that all information is already incorporated in the asset prices. In efficient market asset prices follow random walk (with a drift) and no pattern describing the behaviour of the prices can be identified. Moreover all new information should be immediately absorbed by the market, which should lead to immediate price adjustment following news release. In efficient market any arbitrage opportunity should vanish instantly, as such opportunity should be immediately taken advantage of. The no-arbitrage assumption is a basis for risk neutral valuation models used in derivative pricing. Yet one can wonder whether making no-arbitrage assumption can be justified and whether arbitrage opportunities exist in the financial markets.

There is a broad empirical literature that is providing evidence for mispricing in equity markets and suggesting that such mispricing could lead to arbitrage opportunities [Cornell, French 1983; MacKinlay, Ramaswamy 1988; Bilson et al. 2005; Bembenik 2007]. At the same time there are factors such as, for example: transaction costs, short-selling constrains or low liquidity of underlying asset that
could affect (reduce) the possibility of profiting from such arbitrage opportunity [Fung, Draper 1999; Richie et al., 2008; and Szyszka, Zaremba 2010]. Yet as much as those market frictions prevent arbitrageurs from keeping the mispricing at zero level, arbitrageurs still have some impact on the mispricing [Cooper, Mello 1990; Kumar, Seppi 1994; Kempf 1998].

This paper aims to investigate the arbitrage opportunities, and in particular the magnitude of mispricing in equity market. The focus is on British equity market, as it is the most liquid European market. The study is based on FTSE100 index and is conducted for years 1985–2012. The novelty of the research is that not only it focuses on the most recent data that covers also the current economic crisis, but it incorporates the study of the impact of the day-of-the-week effect on the mispricing and thus on the arbitrage opportunities. The paper intends to answer two research questions: (1) was the level of mispricing affected by the crisis and therefore is mispricing changing in time; (2) are there any evidence of the day-of-the-week pattern in the mispricing.

The paper is organized as follows, first the trend in FTSE100 and FTSE100 futures is analysed. Following that the level of mispricing of FTSE100 futures is identified. Next the study investigates (1) whether mispricing is stable over time, and (2) whether there are any signs of the day-of-the-week patterns in mispricing. Finally conclusions summarize the main results of the research.

2. FTSE100 and FTSE100 futures

The paper aims to investigate possible mispricing on the London Stock Exchange. FTSE100 index has been chosen as the proxy of the London market, due to its high liquidity and also relatively high liquidity of its trading futures. Figure 1 presents how the value of FTSE100 and its 1- and 2-position futures was changing over time. The diagram reveals that there were two major stock market crashes in years 1987–2012. First one was related to the bust of the IT bubble, second to the current economic crisis (that had its origin on the bust of the U.S. real estate market bubble and more precisely in the problems resulting from excessive use of mortgage backed securities). It is apparent that although changes in both futures follow the changes in the underlying asset, still mispricing might be taking place. The following section investigates whether such mispricing exists and if so, is it stable over time.

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1 FTSE1F refers to FTSE100 1-position futures, i.e. outstanding contract closest to maturity. FTSE2F is the FTSE100 2-position futures, i.e. outstanding contract 2nd closest to maturity. FTSE3F is FTSE100 futures that is 3rd closest to maturity and FRSE4F is 4th closest to maturity.
3. Mispricing: change in time

Figure 2 outlines the difference between the actual and the artificial value of the FTSE100 1-position futures contract. Both the daily average values and daily median values of the mispricing are reported. It is clear that since 1993, excluding short period following the IT bubble bust, mispricing has been increasing. Mispricing continued to increase until the start of the current crisis, and after a brief decrease it is increasing yet again.

This increase in the mispricing could be originating from the fact that the standard measures of the proxy of the risk-free rate do not reflect any more what market believes to be a fair risk-free rate. Moreover changes in mispricing could be coming from government intervention [Naranjo, Nimalendran 2000; Chaboud, LeBaron, ]

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2 Later referred to as mispricing. In the perfect and frictionless market, the futures price should be equal to the future value of the current spot price, thus the artificial FTSE100 futures \( F \) is calculated as [Black 1976; Merton 1977; Harrison, Kreps 1979]:

\[
F = S e^{rt},
\]

where \( S \) is the spot value, i.e. the FTSE100 price index on day \( i \), \( r - \) is the risk free rate (proxied by 1- and 3-month TBills) and \( t \) is the time to maturity of the futures contract (expressed as faction of a year). The study has been limited to FTSE100 1-position as those contracts are characterized by the highest liquidity, thus one would expect them to provide relatively limited arbitrage opportunities that are yet to be explored.
To help the economy overcome the crisis U.K. government did impose low interest rates. This resulted in initial decrease of mispricing. Yet at present the government policy is not sufficient to keep the belief in the market that the fair value of the risk-free rate is in-line with traditional proxies (such as T-bills). Therefore one can witness yet another increase in mispricing while using those traditional proxies in valuation.

One would expect that times of high volatility should be calling for higher risk compensation of fair risk-free rate (as opposed to proxy rate), leading to possible increase in mispricing. This is apparently the case during the current crisis. Yet it seems rather puzzling that during the IT bubble bust mispricing stabilized instead of increasing (at least in terms of the mean mispricing). At the same time both crisis brought increase in the risk as measured by the standard deviation of the level of mispricing (see Figure 3). What is interesting is that since 1996 the level of the standard deviation was relatively stable. The change in level of the standard deviation resulting from IT and current crisis was relatively low (in range of 20% only).  

The puzzle of the lack of increase in the average level of mispricing following IT bubble burst (as seen on Figure 2) could be tackled by looking at relative values.

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3 This is not entirely in line with previous studies that indicate positive relationship between volatility and mispricing [Merrick 1987; Hill et al. 1988; Draper, Fung 2003].

---

**Figure 2.** Average and median of the daily difference between actual and artificial rate of FTSE100 1-position futures

Source: own calculations based on data obtained from EcoWin.
When talking about the level of mispricing it seems relevant to look at relative figures and compare the change in the level of mispricing to the (absolute) changes in the value of the underlying asset. Both Table 1 and Figure 4 show that in comparison to the absolute daily changes in FTSE the daily mispricing of the FTSE1F seem to be of high importance. In years 1987–2012 the average ratio of the mispricing to the changes in FTSE \( M = \frac{M_{FTSE1F}}{adFTSE100} \) was equal to 0.85. Yet during the crisis the mispricing became relatively less important, with the ratio dropping down to 0.39 for both periods during the IT bubble and during current crisis. This could have been expected as the crisis brought high volatility in the underlying asset, whereas as noted earlier volatility in mispricing was relatively low (i.e. stable in time standard deviation).

To sum up, this section outlined not only the increasing trend in mispricing but also the high relative importance of mispricing. The following section will investigate whether the day-of-the-week effect exists in mispricing.

---

Some other papers use the level of the index and not changes in the index as a benchmark [MacKinlay, Ramaswamy 1988 Yadav, Pope 1994].

\[ M_i = \frac{F_{FTSE1F_i}}{adFTSE100_i} \]

where \( adFTSE100_i \) is the absolute value of the change in the FTSE100 index between day \( i = 1 \) and \( i \).
Figure 4. Average absolute value of the daily change in the FTSE100
Source: own calculations based on data obtained from EcoWin.

Table 1. Ratio of FTSE 1-position futures daily mispricing to the absolute daily changes in FTSE100

<table>
<thead>
<tr>
<th>Year</th>
<th>M</th>
<th>Year</th>
<th>M</th>
<th>Year</th>
<th>M</th>
<th>Year</th>
<th>M</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>2.472</td>
<td>1992</td>
<td>0.524</td>
<td>1999</td>
<td>0.395</td>
<td>2006</td>
<td>0.897</td>
</tr>
<tr>
<td>1986</td>
<td>0.987</td>
<td>1993</td>
<td>0.771</td>
<td>2000</td>
<td>0.387</td>
<td>2007</td>
<td>0.631</td>
</tr>
<tr>
<td>1987</td>
<td>0.594</td>
<td>1994</td>
<td>0.763</td>
<td>2001</td>
<td>0.392</td>
<td>2008</td>
<td>0.393</td>
</tr>
<tr>
<td>1988</td>
<td>2.026</td>
<td>1995</td>
<td>0.981</td>
<td>2002</td>
<td>0.398</td>
<td>2009</td>
<td>0.56</td>
</tr>
<tr>
<td>1989</td>
<td>1.534</td>
<td>1996</td>
<td>1.124</td>
<td>2003</td>
<td>0.632</td>
<td>2010</td>
<td>0.557</td>
</tr>
<tr>
<td>1990</td>
<td>1.053</td>
<td>1997</td>
<td>0.66</td>
<td>2004</td>
<td>1.196</td>
<td>2011</td>
<td>0.456</td>
</tr>
<tr>
<td>1991</td>
<td>0.909</td>
<td>1998</td>
<td>0.443</td>
<td>2005</td>
<td>1.278</td>
<td>2012</td>
<td>0.788</td>
</tr>
</tbody>
</table>

Source: own calculations based on data obtained from EcoWin.

4. Mispricing: day-of-the-week effect

Monday effect is one of the most widely acknowledged time patterns in equity prices. The evidence of this pattern leads to rejection of the weak form of the market efficiency hypothesis. This section investigates the day-of-the-week pattern in the mispricing.

Table 2 presents average and median mispricing of 1-, 2-, 3- and 4-position contracts on FTSE100. The longer the maturity of the contract, the higher is the mispricing. This seems to be well expected as the contracts with longer maturities are characterized by low liquidity (due to the majority of trades being conducted in
the nearest outstanding contracts), thus leaving more chances for arbitrage opportunity [Yavad, Pope 1994].

Table 2. Average, median and standard deviation of the difference between artificial and actual forward rates for 1-, 2-, 3- and 4-position contracts on FTSE100

<table>
<thead>
<tr>
<th></th>
<th>FTSE1F</th>
<th>FTSE2F</th>
<th>FTSE3F</th>
<th>FTSE4F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monday</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>–22.2</td>
<td>–50.68</td>
<td>–90.3</td>
<td>–145.32</td>
</tr>
<tr>
<td>Median</td>
<td>–19.95</td>
<td>–48.36</td>
<td>–83.06</td>
<td>–146.21</td>
</tr>
<tr>
<td>St.dev</td>
<td>20.43</td>
<td>26.08</td>
<td>85.68</td>
<td>29.59</td>
</tr>
<tr>
<td>Tuesday</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>–21.26</td>
<td>–49.8</td>
<td>–88.18</td>
<td>–143.32</td>
</tr>
<tr>
<td>Median</td>
<td>–18.91</td>
<td>–47.75</td>
<td>–82.72</td>
<td>–143.6</td>
</tr>
<tr>
<td>St.dev</td>
<td>20.31</td>
<td>26</td>
<td>74.57</td>
<td>29.68</td>
</tr>
<tr>
<td>Wednesday</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>–21</td>
<td>–49.61</td>
<td>–89.65</td>
<td>–143.47</td>
</tr>
<tr>
<td>Median</td>
<td>–18.44</td>
<td>–47.09</td>
<td>–81.58</td>
<td>–142.69</td>
</tr>
<tr>
<td>St.dev</td>
<td>19.96</td>
<td>25.74</td>
<td>97.65</td>
<td>29.38</td>
</tr>
<tr>
<td>Thursday</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>–20.68</td>
<td>–49.71</td>
<td>–88.12</td>
<td>–144.46</td>
</tr>
<tr>
<td>Median</td>
<td>–18.63</td>
<td>–46.56</td>
<td>–82.1</td>
<td>–142.51</td>
</tr>
<tr>
<td>St.dev</td>
<td>23.62</td>
<td>26.65</td>
<td>75.52</td>
<td>30.02</td>
</tr>
<tr>
<td>Friday</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>–23.52</td>
<td>–52.04</td>
<td>–93.02</td>
<td>–146.37</td>
</tr>
<tr>
<td>Median</td>
<td>–20.77</td>
<td>–50.41</td>
<td>–86.56</td>
<td>–147.77</td>
</tr>
<tr>
<td>St.dev</td>
<td>21.35</td>
<td>26.21</td>
<td>85.69</td>
<td>29.38</td>
</tr>
<tr>
<td>Average</td>
<td>–21.71</td>
<td>–50.34</td>
<td>–89.79</td>
<td>–144.56</td>
</tr>
<tr>
<td>St.dev</td>
<td>21.18</td>
<td>26.14</td>
<td>84.23</td>
<td>29.61</td>
</tr>
</tbody>
</table>

Source: own calculations based on data obtained from EcoWin.

When comparing the value of the average mispricing on various days of the week, it is clear that in the sample period the largest mispricing occurs on Fridays, while the smallest mispricing is identified on Thursdays. Table 3 displays the results of the Welch’s $t$ test that investigates the day-of-the-week effect in mispricing.\(^6\)

For the nearest outstanding contract Table 3 shows that the expected Friday mispricing is statistically significantly higher than expected mispricing on other days of the week (as confirmed by the $t$-stat of the Welch’s test). The largest expected difference in mispricing occurs between Thursday and Friday. At the same time as compared with Monday, Thursday has the smallest expected mispricing.

\(^6\) Welch’s $t$ test has been chose, as it compares the expected values of two series with different standard deviations. Welch’s $t$ statistics is calculated as:

$$t = \frac{x_1 - x_2}{\sqrt{\frac{s_1^2}{N_1} + \frac{s_2^2}{N_2}}}$$

where $x_i$ is the average mispricing on $i$-th day-of-the-week, $s_i$ is the standard deviation of the mispricing on $i$-th day-of-the-week and $N_i$ is the number of observations of $i$-th day-of-the-week mispricing.
Table 3. Welch’s t-test for the similarity of the expected difference between artificial and actual forward rates for 1-, 2-, 3- and 4-position contracts on FTSE 100 for various days of the week

<table>
<thead>
<tr>
<th></th>
<th>FTSE1F</th>
<th>FTSE2F</th>
<th>FTSE3F</th>
<th>FTSE4F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mon Fri</td>
<td>1.711**</td>
<td>1.398*</td>
<td>0.856</td>
<td>0.963</td>
</tr>
<tr>
<td>Mon Tue</td>
<td>–1.251</td>
<td>–0.913</td>
<td>–0.715</td>
<td>–1.823**</td>
</tr>
<tr>
<td>Mon Wed</td>
<td>–1.599*</td>
<td>–1.123</td>
<td>–0.193</td>
<td>–1.694**</td>
</tr>
<tr>
<td>Mon Thr</td>
<td>–1.863**</td>
<td>–0.999</td>
<td>–0.73</td>
<td>–0.78</td>
</tr>
<tr>
<td>Tue Wed</td>
<td>–0.338</td>
<td>–0.206</td>
<td>0.457</td>
<td>0.138</td>
</tr>
<tr>
<td>Tue Thr</td>
<td>–0.71</td>
<td>–0.097</td>
<td>–0.021</td>
<td>1.031</td>
</tr>
<tr>
<td>Tue Fri</td>
<td>2.94***</td>
<td>2.311***</td>
<td>1.628*</td>
<td>2.792***</td>
</tr>
<tr>
<td>Wed Thr</td>
<td>–0.404</td>
<td>0.106</td>
<td>–0.473</td>
<td>0.899</td>
</tr>
<tr>
<td>Wed Fri</td>
<td>3.293***</td>
<td>2.528***</td>
<td>0.991</td>
<td>2.667***</td>
</tr>
<tr>
<td>Thr Fri</td>
<td>3.415***</td>
<td>2.38***</td>
<td>1.638*</td>
<td>1.739**</td>
</tr>
</tbody>
</table>

Asterisks indicate the level of significance.

Source: own calculations based on data obtained from EcoWin.

Figure 5. Average difference between artificial and actual forward rates for 1-position contracts on FTSE100 at various days of the week

Source: own calculations based on data obtained from EcoWin.
Figure 5 indicates that mispricing on various days of the week has been changing in time. There are apparent patterns in the relative level of mispricing, with Friday’s mispricing being the largest. This provides yet another evidence of the day-of-the-week effect in mispricing.

The Friday effect identified above could be explained by the unwillingness of market participants (on average) to be holding open position through the weekend. This could result in increased trading on Fridays, which in turn could lead to mispricing (as perhaps more market participants want to clear the positions versus explore arbitrage opportunities). This explanation would need further empirical investigation (by for example focusing on intraday data). Moreover it would be also interesting to investigate what could be the possible explanation of the relatively low mispricing on Thursdays, in particular during the recent crisis.

5. Conclusions

The paper investigates the arbitrage opportunities, and in particular the mispricing in equity markets based on FTSE100 index and FTSE100 futures. There is an evidence of mispricing in years 1985–2012, with the recent years characterized by increasing spread between actual and artificial futures prices (thus providing evidence that mispricing is changing in time). The possible explanation for this increase in mispricing is the technical default of derivative pricing model that relies on traditional proxy of “risk-free” rate, which apparently are not what the markets believes to the fair value of the risk-free rate anymore. Furthermore the study conducted in the paper revealed the presence of the day-of-the week pattern in mispricing. The largest mispricing occurs on Fridays, the smallest on Thursdays.

References


Cooper I., Mello A., Futures/Cash Arbitrage with Early Unwinding Opportunities and Inelastic Liquidity Demand, paper presented at ESF Network Workshop on Options and Futures, October 1990, Spain.


7 Particularly high mispricing is to be expected at the end of the session. It would be interesting to compare the end of session mispricing on various days of the week.
ARBITRAŻ NA RYNKU AKCJI


Słowa kluczowe: arbitraż, rynek akcji, kontrakty terminowe.
FINANCIAL REPORTING AS THE INSTRUMENT PRESENTING ENTITIES’ RESPONSIBILITY FOR THEIR ECONOMIC AND SOCIAL PERFORMANCE

Abstract: Economic entities, through their impact on the surrounding environment, co-create the reality and influence both our future and that of the generations to come. Therefore it is of crucial importance to present an entity performance not only in the financial perspective, but also from the position of its impact on environment and the responsibility for the actions taken. Bearing in mind the fact that financial reporting is the most commonly applied form of financial performance presentation used by entities, the objective of the hereby paper is to analyse possibilities for preparing a single, integrated financial statement of both retro- and prospective character and covering information of financial and non-financial nature and also referring to entities’ social responsibility for their performance.

Keywords: financial reporting, sustainable development, integrated reporting.

1. Introduction

Development represents one of the crucial objectives followed by economic entities. They exert impact on their immediate environment by the activities performed. Therefore, it can be stated that they co-create the surrounding reality. As the result of undertaken operations economic entities become responsible not only for their current accomplishments, but also, and what seems to be more important, for influencing the future. For this reason the problem of an entity performance presentation is of vital significance in order to illustrate the results of entities business activities not only in their financial perspective, but also from the position of their impact on the surrounding environment and their responsibility for the underlying actions in a comprehensive and transparent way for the purposes of all stakeholders associated with a particular entity, as well as the remaining participants of the global community.

Financial statements are the most important and the most commonly used forms of documents generated by an accounting system. They constitute the basic source of information about the financial situation at the end of every reporting period, and
also about the accomplishments and results of activities a given economic entity was involved in the period reported. Regulations covering the rules underlying financial statements preparation are based on accounting theory and practice achievements, have been historically developed and determined by social conditions. Owing to their form and nature financial statements do not include information about a given entity impact of its environment.

Therefore attaching environmental, social, ethical reports, as well as information referring to contacts with different groups of stakeholders to entities’ financial statements, was initiated. At the end of the 20th century a growing number of entities, apart from financial reporting, were also publishing environmental and social reports. However, the running of two systems of external reporting (financial and social responsibility) turned out to be expensive and inconvenient.

The objective of the hereby paper is the analysis of possibilities to prepare one, integrated financial statement of both retro- and prospective character, including information of financial and non-financial nature and also referring to entities’ social responsibility for their performance.

The content of the study has been based on the review of both Polish and foreign reference sources, as well as the author’s own considerations based on scientific and practical background.

2. Contemporary financial reporting and its modification directions

Since 2001, the two largest global institutions responsible for accounting standards development, i.e. the European International Accounting Standards Board (IASB) and the American Financial Accounting Standards Board (FASB), at first separately and since 2002 jointly, have been working on a financial reporting model. The efforts undertaken within the framework of convergence processes, covering solutions presented in the American standards (US GAAP) and International Financial Reporting Standards (IFRS), aimed at developing uniform, commonly acceptable, global accounting standards. On 29th May 2008 IASB and FASB published the jointly prepared proposal entitled: “Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information” [Preliminary Views... 2008]. Both institutions declared their support for the establishment of common, comprehensive, transparent and consistent conceptual framework to be used in financial reporting, considering market transformations, changes in enterprises and business environment which have been occurring since the existing concept was developed and also in order to prepare a uniform, single standard-setting document for global use.

The adopted approach is focused on extending, among others, the usefulness and credibility of information presented in financial statements. Paradoxically, the global

R.M. Trueblood [1973, p. 111], on the basis of research conducted in the U.S.A. among companies and other institutions regarding financial reporting objectives, concluded that “the objective of financial statements is to serve primarily those users who rely on financial settlements as their principal source of information about enterprises economic activities [...]. An objective of financial statements is to provide information useful to investors and creditors for predicting, evaluating and comparing.”

The objective of contemporary financial statements\(^1\) does not, in fact, differ from the one identified by entities in the U.S.A. in 1973. The objective of financial reporting suggested in the “Conceptual framework” [Preliminary Views... 2008] can be divided into:

- the general objective of financial reporting – providing financial information about an entity which is useful for the existing and potential capital investors, creditors and other loan holders in their decision-making process within their scope of competencies,
- components of the general objective:
  1) usefulness of information for the assessment of future profit generating capacity,
  2) usefulness of information for the assessment of the Board’s performance of its fiduciary function.

However, having considered the needs of global reporting information users regarding information usefulness while undertaking economic decisions, analyzing alternative solutions and selecting the most favourable ones in certain conditions, and also with reference to reporting information comparability indispensable e.g. in the process of benchmarking, the financial statements prepared in accordance with the functioning formulas and standards do not provide such information.

Having focused on the needs represented by the broad spectrum of the reported information stakeholders, IASB and FASB prepared the draft of a new financial statement form which represents a different, from the existing one, approach to an entity. It is no longer an entire entity, but its particular types of activities are supposed to present a cross-section of information with reference to particular components of a financial statement. The suggested changes, according to the authors of this proposal, are aimed at the implementation of the fundamental financial reporting objective, i.e. offer capital providers, mainly investors, the necessary information to assess due amounts, time horizon as well as the level of future cash flow uncertainty.

The solutions worked out by IASB and FASB have been defined as revolutionary in the environment of accounting professionals. Nevertheless, financial statements

\(^1\) The term “contemporary financial statement” used in the paper refers to a financial report prepared in accordance with standards suggested by UASB and FASB.
have still been lacking a lot of significant information, vital for the decision making process. The most important issues have been identified below:

1) financial statements, in knowledge-based economy, do not offer information about intangible factors, such as e.g. intellectual capital, internal corporate value, customer relations, assets related to location, market assets, etc.,

2) controversial method for an entity’s assets valuation and their origins mainly based on historical value and resulting in the growing dissonance between assets balance sheet and market value,

3) excessively creative approach to the presentation of different components included in financial statements,

4) the absence of information consistency presented in particular financial statement components, as well as insufficient data disaggregation,

5) insufficient awareness of individuals responsible for accounting policy development regarding the consequences of solutions accepted,

6) the absence of possibility to specify, based on the data included in financial statements, all vital factors referring to a given entity functioning, e.g. such as factors generating its value, strategy, plans, main risk factors.

Additionally, in the opinion of the author, an investor as the capital owner is a very important user of financial statements, however, not the only one. Enterprises, as the creators of financial statements, functioning at the global market should respect the needs of all interested parties and refer to them in a responsible manner.

3. The reporting of entities’ social responsibility

The role of social responsibility keeps growing along with the more extensive and significant influence of entities’ business operations on the direction of civilization development. Entities have to face the consequences for their impact on the future of the world. The analysis of entities’ responsibility for their performance only in the context of their responsibility towards investors or owners is absolutely insufficient. Currently, in the times of economic processes globalization, the operations performed by enterprises exert impact on social or economic situation of other countries worldwide. More and more frequently, the global community expects entities to function in an ethical manner and to be held morally accountable for their actions.

Reference sources as well as the global practice offer different definitions of enterprise responsibility referred to as Corporate Social Responsibility (CSR), Corporate Responsibility (CR), Business Responsibility, Corporate Sustainability, Corporate Citizenship (CC), Global Business Citizenship, Corporate Community Engagement, Community Relations [Jaworska 2011, p. 574]. The European Commission defines CRS as the concept of voluntary taking into account social and environment protection issues by an enterprise in its business operations and contacts with stakeholders [Communication from the Commission... 2006, p. 2]. On the one
hand, it is emphasized that such initiative, on the part of an entity, is not obligatory and, on the other, significant emphasis is assigned to an entity’s responsibility for social and environmental effects resulting from its performance impact on the environment.

Corporate social responsibility is related to sustainable development concept which was developed in the 70s of the 20th century. In line with this concept business operations performed by an entity cannot result in life quality deterioration of current and future generations. However, in order to assess an entity’s impact on its environment it is vital to obtain credible and useful information in this matter, included in adequate reports or statements and presenting three areas (dimensions): economic, environmental and social aspects.

In order to prepare the transparent and unambiguous reporting system illustrating sustainable development issues the Global Reporting Initiative (GRI) was appointed in the U.S.A. in 1997. Currently this organization is cooperating with different groups of stakeholders and experts among whom there are auditors, accountants, consulting and training companies, enterprises, universities, public benefit organizations, investors, trade unions and public institutions [Paszkiewicz, Szadziewska 2011, p. 631]. GRI’s mission is to develop uniform guidelines to be applied in reporting about economic, environmental and social results worldwide in the way which allows for making comparisons [Raportowanie społeczne...]. The suggested standard can be applied by all organizations independently of their size, sector of operations and location. GRI’s guidelines are followed by enterprises, non-governmental organizations and government agencies. GRI does not impose the form of sustainable development report and the suggested guidelines are subject to tests and ongoing improvements. GRI emphasizes that sustainable development reporting represents the practice of measuring, disclosing and facing responsibility for organizational effects resulting from the activities performed for the benefit of sustainable development [Wytyczne do raportowania..., p. 42]. Reports can be presented in the form of a printed publication, a website or constitute a component of an annual report. However, attention is paid to the fact that regardless of the chosen form entities should present due content in three basic groups:

1) strategy and profile,
2) approach to management,
3) performance indicators.

At first, in line with GRI guidelines underlying sustainable development issues reporting, an entity issuing a report should identify and define its stakeholders, as well as explain how it responds to their expectations. The first part of a report should present its approach to sustainable development issues by e.g. describing its influence

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3 This definition covers entities and natural persons whose rights, resulting from regulations and international conventions, ensure the possibility of their submitting claims against organizations [Wytyczne do raportowania..., p. 11].
on this development, discussing opportunities and threats faced by an entity, presenting its profile data, the report’s scope and coverage, information about the supervision structure, participation in external initiatives and issues referring to its stakeholders’ involvement.

The second part of information referring to management approach takes the form of a brief description regarding the solution adopted by a particular unit with reference to aspects specified for each category of indicators presented in the third part.

The indicators included in the third part of a report are divided into economic, environmental and social categories (Table 1).

**Table 1.** Performance indicators approved by the Global Reporting Initiative

<table>
<thead>
<tr>
<th>Indicator category</th>
<th>Aspects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic (EC)</td>
<td>Economic results, market presence, indirect economic impact</td>
</tr>
<tr>
<td>Environmental (EN)</td>
<td>Resources, materials, energy, water, biodiversity, emissions, sewage and waste, product and services, compliance with regulations, transport</td>
</tr>
<tr>
<td>Practices for employment and decent labour (LA)</td>
<td>Employment, relations between employees and management, occupational safety and health, education and trainings, diversity and equality of opportunities</td>
</tr>
<tr>
<td>Respecting human rights (HR)</td>
<td>Procurement and investment procedures, countering discrimination, freedom of association, the right for collective disputes, child labour, forced labour and compulsory labour, security practices, rights of native populations</td>
</tr>
<tr>
<td>Impact on safety (SO)</td>
<td>Local community, corruption, participation in public life, violation of free competition rules, compliance with regulations</td>
</tr>
<tr>
<td>Responsibility for products (PR)</td>
<td>Client health and safety, labelling of products and services, marketing communication, customer privacy protection, compliance with regulations</td>
</tr>
</tbody>
</table>

Source: author’s compilation based on [Global Reporting…].

Apart from the standards developed by GRI there are also other reporting guidelines in the world, which have been developed by, among others, such organizations as G3, AccountAbility, ISO or Social Accountability International (SAI) and are mandatory at both international and local scale. Some of them are of an obligatory nature, others are optional. Each standard has its strengths and can result in company profits. It is important for an organization to decide about the choice of a standard depending on an entity’s and its stakeholders’ priorities [Raporty społeczne].

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4 The guidebook to the guidelines for social reporting (developed in cooperation by PricewaterhouseCoopers and AccountAbility and published by World Business Council for Sustainable Development) can be accessed at www.wbcsd.org/web/publications/accountability-codes.pdf.
4. The concept of integrated reporting

In 2010 the organization operating under the patronage of the Prince of Wales called Accounting for Sustainability (A4S) and GRI appointed the International Integrated Reporting Council (IIRC) composed of, among others, the representatives of IASB, FASB and IFAC (International Federation of Accountants), members of accounting environment, global corporations, state governments and international non-governmental organizations, as well as representatives of academic centres. As the main objectives of its activities IIRC listed, in particular, as follows [KPMG 2011, p. 19]:
- the development of comprehensive conceptual framework for integrated accounting, which defines its scope and key components,
- considering whether standards should be voluntary or mandatory,
- propagating the approval of integrated reporting by the regulators responsible for preparing statements.

Academic literature sources offer various definitions of an integrated statement. IIRC defines an integrated report as the statement presenting information about the strategy, management, efficiency and perspectives of an organization reflecting economic, social and environmental context of its functioning [IIRC 2011, p. 2]. A report should present the method used for entity management and its value creation in a transparent, concise and clear manner for all interested parties. In accordance with the IIRC concept, integrated reporting should combine the most vital information elements currently presented in financial statements, in the Board comments, in statistical statements and in other separate documents, in a coherent way allowing for the assessment of a given entity capacity to create and maintain value in the mid- and long-term perspective.

In September 2011 IIRC published materials for discussion, presenting the proposal for the development of an international integrated reporting model which in a clear and simple way could combine basic information referring to an entity strategy, its functioning model, corporate governance, the obtained economic results and perspectives, as well as reflect economic, social and environmental conditions of the underlying entity operations and also could facilitate the decision making process by a broad spectrum of stakeholders [IIRC 2011]. Additionally, an integrated report could present relations between particular reporting areas and therefore, in the opinion of its authors, could become a transparent instrument for communication between an entity and its stakeholders.

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5 In December 2010 IASB, having considered the growing importance of non-financial information for financial statements stakeholders, published the document Practical standpoint: Board commentary, helping its user to understand an entity strategy followed in risk management, the influence of resources not covered by the financial statement on entity’s performance and the impact of non-financial factors on information presented by a financial statement [Praktyczne stanowisko..., par. 14].
5. Final remarks

Beyond any doubt, the solutions suggested by IIRC resulted in greater transparency of information presented in statements, reporting methods harmonization, higher involvement of stakeholders and their increased trust towards a particular unit, costs reduction of separately prepared financial statements and corporate responsibility reports. However, the hereby paper author’s opinion, having considered the criticism and problems of contemporary financial reporting as well as the scope and the nature of corporate responsibility reports, the shared hope that integrated reporting will become the basic and common form of entities’ reporting about their economic and social performance, will present the task extremely difficult to achieve. Both accounting and financial reporting, are influenced directly by the environment in which a given entity is functioning and also by diversified, frequently complicated regulations. Additionally, the presented by IIRC proposals will not eliminate numerous conflicting and still not clarified by IASB and FASB solutions in the area of an entity financial situation and its financial result reporting referring to e.g. discrepancies between entities’ book value and market value or rules for intangible assets disclosure and valuation.

On the other hand, the research results carried out by AccountAbility organization and KPMG company at the turn of 2007 and 2008 show that the significant majority of sustainable development reports addressees do not read them at all. The survey covered over 2200 respondents (representatives of businesses, social organizations and academic circles) from all over the world. More than 450 of them declared that they do not read reports also because of their size (100–300 pages) [Raportowanie społeczne...].

At the background of the above presented discussion the author puts forward the following thesis: the obligatory financial reporting, in the form transformed and adjusted to the needs of the global community, extended by the key non-financial aspects, related to entities’ corporate social responsibility for their performance, presented as an additional note or a supplementary component added to the statement, can constitute a vital instrument in the presentation of the underlying entities responsibility for their economic and social achievements, necessary for the decision-making process by the growing number of stakeholders. The presented statements have to be useful, clear and transparent for their users and also helpful in the identification of both opportunities and threats related to environmental and social issues.

References


\[ For more see e.g. [Zuchewicz 2011, pp. 77–95].\]

Websites

SPRAWOZDAWCZOŚĆ FINANSOWA JAKO INSTRUMENT PREZENTACJI ODPOWIEDZIALNOŚCI JEDNOSTEK ZA ICH GOSPODARCZE I SPOŁECZNE DOKONANIA

Streszczenie: Jednostki gospodarcze poprzez wpływ na otaczające je środowisko współtworzą rzeczywistość oraz kształtują przyszłość zarówno naszą, jak i następnich pokoleń. W związku z tym istotną kwestią jest prezentacja dokonań jednostek, nie tylko w ujęciu finansowym, ale również w ujęciu ich wpływu na otoczenie i odpowiedzialności za poczynione działania. Mając na uwadze to, że spośród raportów finansowych jednostek najczęściej wykorzystywana jest sprawozdawczość finansowa, autorka przeanalizowała możliwości opracowania jednego, zintegrowanego sprawozdania finansowego o charakterze zarówno retro- jak i prospectywnym, zawierającego informacje o charakterze finansowym i niefinansowym, dotykające także społecznej odpowiedzialności jednostek za ich dokonania.

Słowa kluczowe: sprawozdawczość finansowa, zrównoważony rozwój, sprawozdawczość zintegrowana.
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