

## COMPETITIVE AND INTEGRATED CAPITAL MARKET IN POLAND AS A FINANCING TOOL FOR THE DEVELOPMENT OF POLISH REGIONS

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**Abstract:** The aim of this scientific article is to assess the importance of an integrated approach to the Polish capital market for financing the development of Polish regions after 2020. The result of the research will be creating an analytical integrated model of sequential organizational changes in the Polish capital market. At the theoretical level, an integrated capital market model will be created enabling the correlation of activities of the capital market participants and emphasizing the very essence of political risk management and allowing for determining their potential impact on financing the development of Polish regions' investments. At the empirical level, the matrix method of decision of problems in the conditions of political risk was used, assuming the occurrence of the following events in the following system: determining the nature of risk, identifying activities, determining possible packages of actions within the framework of political decisions. The results of the research will enable identification of implementation options for actions, and will support implementation of the capital market development strategy. Practical application of research allows for adequate reaction to participants in the situation of organizational changes in the capital market and for showing the importance of financing the development of Polish regions.

**Keywords:** Integrated Polish capital market, financing the development of Polish regions, organizational change on the capital market, integrated territorial investments.

### 1. Introduction

Ensuring long-term development of Polish regions requires competitive and integrated Polish capital market which adopts a horizontal, strategic and responsible approach. The aim should be to strive for the essence of sustainable, durable, economic development and ensure continuity of positive processes currently taking place in the free market economy. Activities in the capital market require state support in the sphere of economic policy, support which takes into account stability of the financial system, and considers the growing role and dynamics of capital market development as an important source of investment financing.

The significance and the role of sustainability of public finances is important especially after the structural and financial crisis that embraced Europe in 2008 (Karkowska, Sopoćko, 2014). Ensuring sustainable development of the economy forces the Polish government to protect and stabilize systems, especially the financial system which is now becoming a key source of investment capital for the development of enterprises and, more importantly, for the development of local self-government units (LGU) in Poland.

Even the most well-functioning, 'perfect', competitive financial markets may be inefficient in terms of proper allocation of financial resources over time as the future is not rewarded in any market (significant words spoken in 1987 by Robert Merton Solow, the Nobel Prize laureate). Currently, the capital market in Poland has become an important foundation for implementation of the current government's Responsible Development Strategy (RDS), and may become the main source of investment financing in Poland, especially with reduction of funding for 2020 from the European funds (the issue of social investments was raised by the author, Monika Klimowicz, PhD, during the II Congress of European Studies in Szczecin). The reason for it should be sought in Great Britain's Brexit from the EU and lowered allocation to the EU budget which may affect regional development in Poland that depends on this domestic capital. Attributing high priority to the Capital Building program becomes justified by both theoreticians and practitioners, and is a key element of implementation of the government strategy for Responsible Development (RDS) as a kind of governmental plan of socio-economic development in Poland.

Investment capital for economic development in Poland should be balanced, self-sustaining, constitute a systemic order that harmonizes the main orders in which balance of governance is important: the institutional and organizational order in the capital market, economic order and systemic order. Each of these orders should be integrated, harmonized and contribute to long-term sustainable development of the Polish capital market.

Interference in the financial system is understood as intervention in the form of making appropriate political decisions to create and implement a responsible strategy. It is undertaken due to implementation of specific economic goals, and its implementation may have direct impact, causing immediate or delayed effects, during a specified period of time in the capital market. The answer to the threat may be management of political risk in the capital market by forecasting the effects of political decisions over different time perspectives. The answer should strive to either gradually or completely satisfy the needs of rationality and efficiency of functioning of capital market participants by offering appropriate institutional and organizational solutions, in the right time perspective, with an appropriate level of risk for the network participants of the capital market. An attempt to approach the capital market in an integrated manner requires process continuity and not fragmented short-term action related to the development of the capital market, intervention in the form of capital market strategy will also ensure its consistent development over the long run.

The scientific article assessed the possible organizational changes in the Polish capital market in favour of financing the development of Polish regions using the strategic political risk management method. The assessment will be complemented by an attempt to indicate possible actions in the form of a proposed series of measures to lower and minimize political risk. The article is of conceptual nature.

## **2. Objectives and decision areas of the Polish capital market – towards integrated activities**

The essence and significance of changes in the current priorities of the state's economic policy is mainly reflected in the Polish capital market, specifically following changes of development directions by political decision maker, and related risk concerns among capital market participants (Broniszewski, 2017). The development of political (systemic) processes in Poland and the European Union is a response to specific threats and problems associated with the ever-present political risk incurred in the capital market that today is a greater challenge than ever, as far as stabilization and development (Banaszczak-Soroka, 2008). The development of political processes should be seen in the development opportunities of the network combining the benefits of a political decision maker with the benefits of market institutions which favour various types of activities and processes currently belonging to market challenges (Szkutnik, 2016).

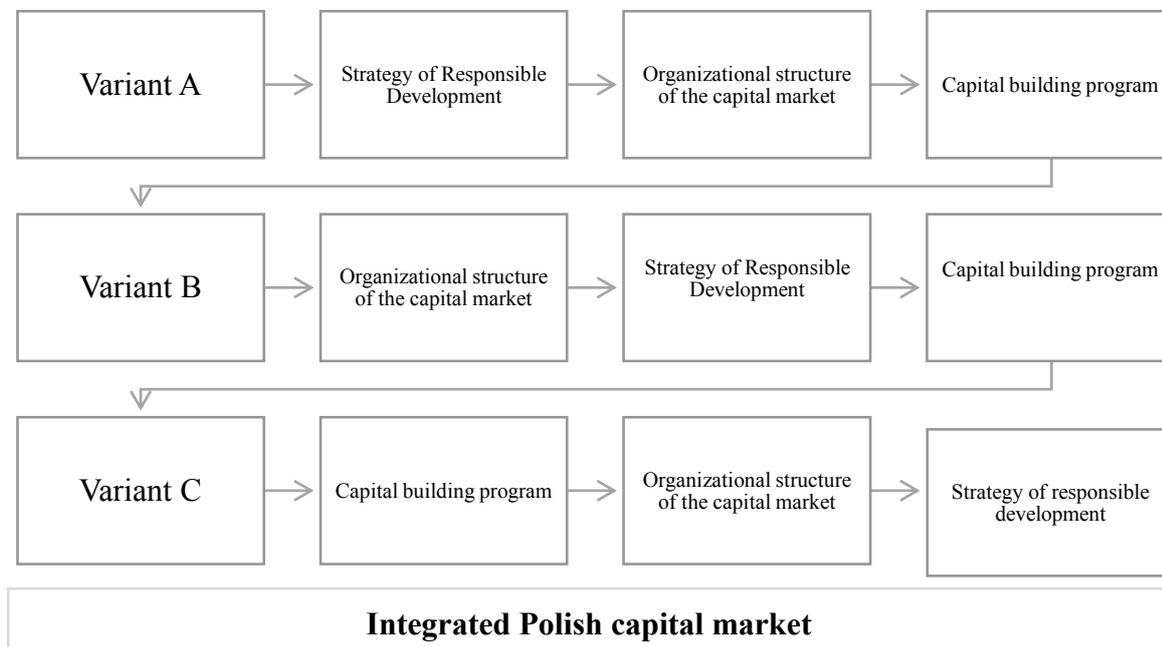
The source of development imbalance in the Polish economy is indicated by the government's Strategy for Responsible Development (SRD) which shows that the current development model of Poland has been dependent on foreign capital, leaving domestic capital in the background (Ministry of Development, 2017). Domestic capital included in the capital market did not play a significant role in creating a transfer of the source of innovation for the development of enterprises located in regions of Poland (European Commission, 2015).

The emerging gap in institutional balance (weakness) is to be seen in the society as a "rule of the game" (North, 1990). The analysis of the assessment of the NRI, HDI, SPI, DESI indicators, carried out in recent years, indicates weakness in the effectiveness of Polish institutional solutions (The World Economic Forum, 2015). This means that there are justified fears about ineffective implementation of development goals, and public policies are not related to financial instruments (NCBiR, 2016). The issue of risk management is related to the stability of the institutional system (Zybała, 2012). Internal consistency of institutional solutions of the Polish capital market should provide an impulse to build Polish capital in the economy and to move towards integration as well as adapt an appropriate package of strategic risk management activities.

In order to be integrated, the package of activities should have a certain set of ordered system rules combining consistent, uniform processes and appropriate practices created for the policy maker, taking into account the economic interest of individual capital market participants. The created rules of strategic political risk management should be closely aligned with organizational and institutional structure of the capital market. The development of the Polish capital market is closely related to the level of attracting private capital (collection), and the activity of capital market participants as to their financial condition. Objectives and decision areas for participants in the capital market should be as follows:

- acquiring capital and shaping the capital structure,
- allocation of capital, effective use of it for influencing, among others, the scope and manner of the capital connection with other market players,
- risk management and effective use of capital market instruments (Łukasik, 2013).

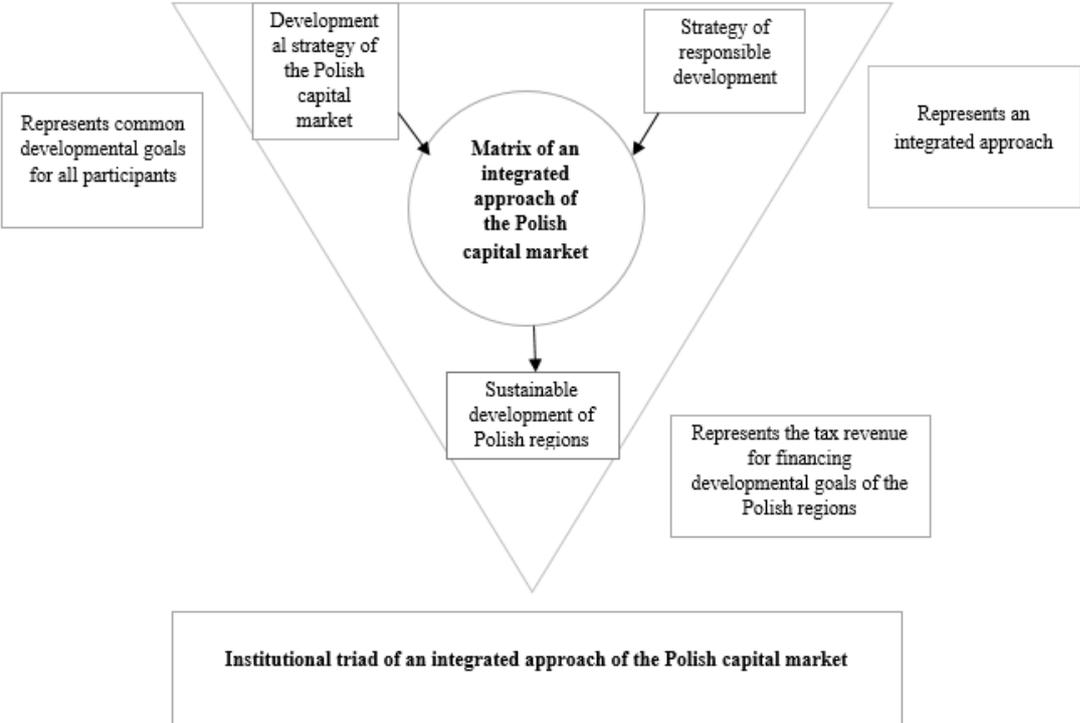
The essence of development and implementation of the government development strategy for the Polish capital market is quite often perceived as a risk (in institutional terms) by capital market participants. The next stage of development of capital market maturity is a change – a combination of coherent processes and practices of economic activity aimed at implementing the strategy. The integrated packages of activities in the Polish capital market should take into account a number of variants shaping such changes (fig. 1).



**Figure 1.** An integrated model of organizational changes in the Polish capital market.

The use of the tested variants of the sequential model in the Polish capital market enables selection of a practical path of activities to develop and gradually perform implementation of the government’s capital market development strategy. The model of strategy implementation adopted above, shapes various variants’ (A, B, C) impact on the development of the Polish capital market. The sequential model assumes the existence of appropriate rules (including the mechanism of implementation process) of the subsequent synergies of the stages. The essence of the presented model is a sequential relationship that determines the relation between the positioning path of components of capital market participants’ action and political decisions, including occurrence of political risk.

The first stage of activities involves determining the type of political risk, i.e. what political conditions affect or may affect the objectives of capital market participants. At the second stage, the risk should be identified by developing an appropriate set of scenarios (possible consequences) that will allow for estimation of the degree of risk and its potential impact on the capital market and its participants. The last stage concerns development of a scenario of actions aimed at counteracting possible or real consequences (avoiding risk). The values refer to how a particular action variant or result is assessed. This term refers to the first degree of consideration. On the other hand, instrumentality shows usefulness of individual attributes to the first degree factor in order to achieve the second degree. Instrumentality may have different values, and therefore be positive or negative (fig. 2).



**Figure 2.** The triad of the institutional matrix of the Polish capital market based on public finances.

An important element of public finances is to have a coherent, rigid integrated framework, skilfully associated with public authorities (LGU) and EU funds at the national, regional and local levels (macro-meso-micro).

### **3. Implementation solutions for the development of the Polish capital market with particular emphasis on political risk management as a tool for financing the development of Polish regions – research results**

Considering the implementation solutions and the importance of the government's capital market strategy for financing the development of Polish regions, one should notice the growing importance of the Polish capital market and the challenges it entails in the era of globalizing markets and in order to avoid risk. Strategic management of political risk is of key importance for the areas of operation of enterprises operating in a regional configuration where the still valid and overlapping problems of raising investment capital, along with risk, block the present and the future development of regional economies (Strzelecki, 2009).

Undoubtedly, the main problem is the scale of the risk borne, as it is a significant determinant affecting the development and functioning of the organization. Lack of uniform and unchanging factors affecting the development of the capital market has been recognized in the long-term SRD strategy which perceives the *Capital Building* risk, related to the implementation of the state's economic policy and the market participants' expectations, as a factor that has significant impact on generating profit and inflows. The results of the lack of risk identification as part of external and internal challenges of globalizing markets are to be non-competitive in an inter-market environment. On the other hand, the benefits of developing an active long-term capital market strategy allow the players to respond properly in crisis situations. The very identification and consequences affecting the functioning should be noticed as part of actions for the development of procedures which initiate an appropriate response when risk arises. This indicates that the methods taken by the decision-maker of political decisions contribute to specific, selected actions (fig. 3).

Political risk is an indispensable determinant of the development of the Polish capital market as it is based on the changing socio-economic situation as a result of changes in political decisions. Therefore, in the above figure, the symbol X/impact factor ( $\uparrow$ ) was marked as understood level of risk impact in the Polish capital market. A characteristic of the capital market is the possession of an appropriate long-term strategy, containing a package of created procedures to counteract and stimulate endogenous development with appropriate risk management. Due to its specificity, each capital market has a different financial situation, which may result in different conditionality of risk in the process of its management. The impact of the sequential model of the capital market on the development of Polish regions is highlighted below (fig. 4).

**Table 3.**

*The matrix of decision problems in conditions of political risk*

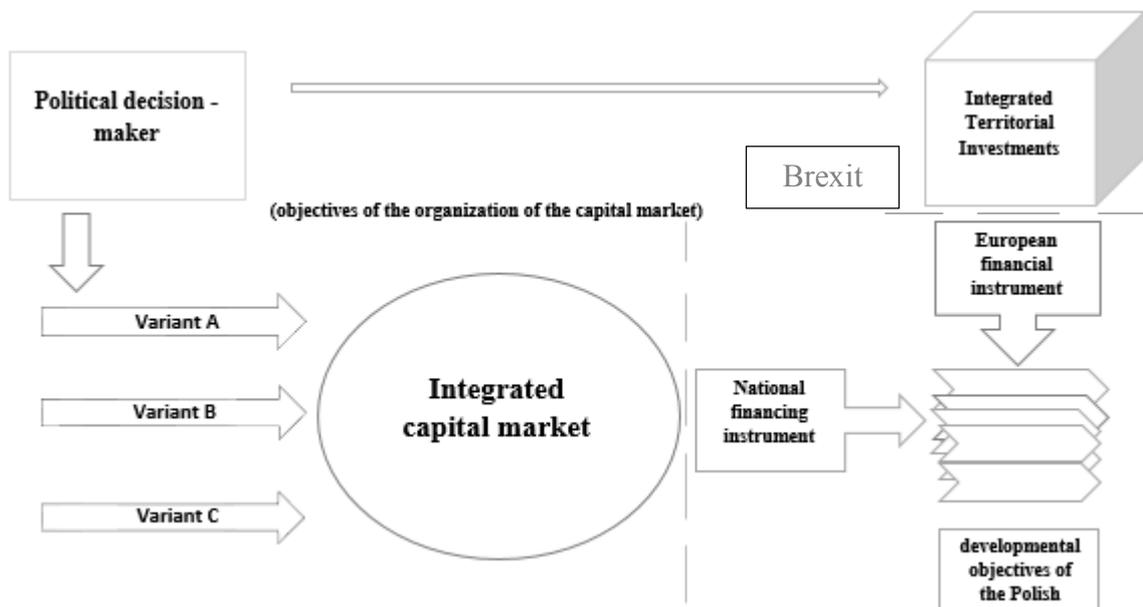
		Variants (acc. to the above sequential model)		
Existing conditions:		(A)	(B)	(C)
Environment of the Polish capital market	<b>Macro-economic</b> (related to implementation of state’s economic policy and the expectations of capital market participants)	T	T	T
	<b>Regulatory</b> (associated with changes in legal and tax regulations)	T	T	T
	<b>Globalization</b> (associated with challenges in the international arena)	T	T	T
	<b>Activities/Package of activities (towards lowering political risk):</b>	(A)	(B)	(C)
	<b>Lowering the risk of legal regulations</b> (associated with adaptation to the Polish legal order)	X	X	X
	<b>Building an attractive image of the Polish capital market</b> (as an attractive place for foreign business entities from Great Britain as a result of the Brexit phase)	X	X	X
	<b>Implementation of a new organizational model in the scope of operationalization of the strategy for capital market development</b> (used to assess the effects of regulation, using the new capital market strategy)	X	X	X

Where:

Y is Yes,

X is the Impact factor (↑).

Source: own study based on: Broniszewski, 2017.

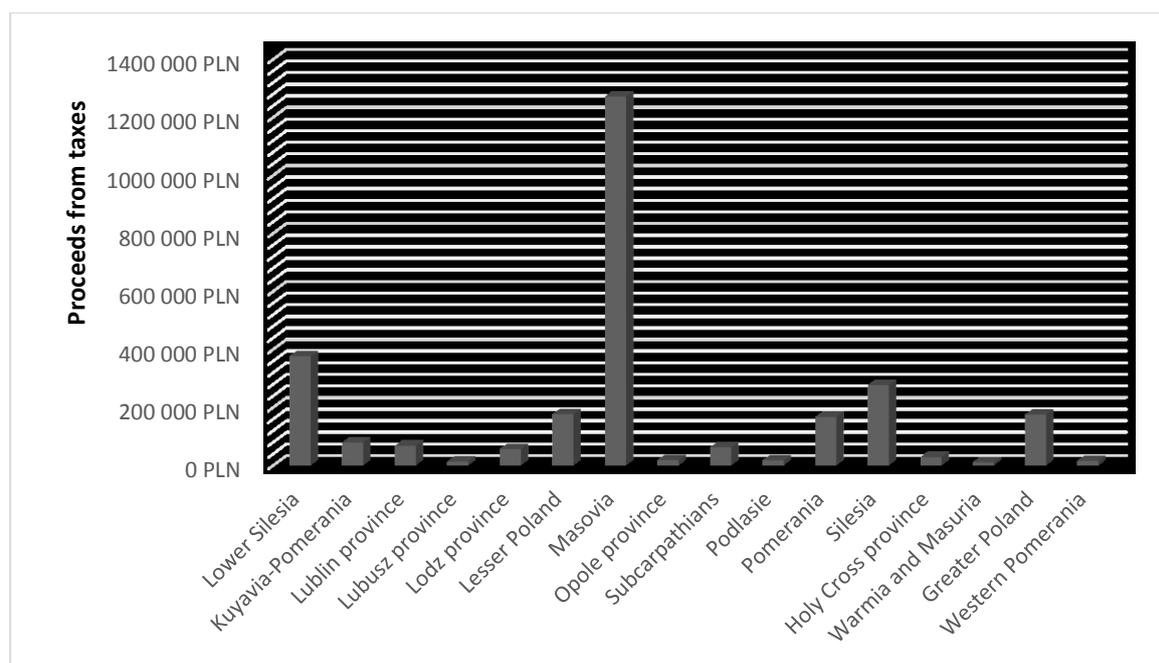


**Figure 4.** The impact of the integrated sequential model of the Polish capital market on the development of Polish regions.

Defining the structure of the process of developing and implementing the government’s capital market development strategy and synergy of financial policy (political decision-maker as the regulator for the implementation of the new SRD) in the implementation of the *Capital*

*Building* rules involves assessing possible consequences in creation and implementation of regulation (strategy building of the capital market) in the scope of integrated development of Polish regions in the long-term. Thus, it ensures investment financing for Polish LGU.

Enterprises present in the capital market, listed on the stock exchange, have positive impact on the strength of local economies, their labour markets, investment and R&D activities, as well as significant impact on the budgetary position of local governments. Firstly, depending on the type of business, they incur, in varying proportions, a number of fees that feed only local budgets: forest and agricultural taxes, environmental and waste fees and permits, as well as property tax (PwC, 2016). Companies listed on the WSE are the largest investors in our country, and this means that they are often a key link determining the economic development of individual regions. Capital market participants implement social responsibility (Broniszewski, 2016). Based on stagnant (quantitative) data, a PwC report shows an estimated scale of inflows to local governments from PIT and CIT taxes from the listed companies (in million PLN), and their share in total budget revenues of local governments of various levels for PIT and CIT taxes (fig. 5).



**Figure 5.** Estimated statement of revenue from taxes on personal income tax (PIT) and (CIT) – condition for 2015 (in thousands).

Diagnosis of the summary of estimated data from receipts from PIT and CIT taxes (for 2015) from companies listed on the stock exchange to LGs shows their significant share in the income obtained from PIT and CIT taxes, and thus is of great importance for financing the development of Polish regions. Especially after 2020, it can be a factor supporting investments in the sphere of research and development (R&D). There is a connection between the creation of an integrated and, simultaneously, competitive Polish capital market. With the economic receipts from PIT and CIT taxes obtained from enterprises listed on the stock exchange by JST,

in the form of increased outlays on R&D and in chain building, there is the added value of innovation for the development of Polish regions. The revenue from PIT and CIT taxes should be currently included in the integrated capital market strategy in Poland, which may be of real benefit for Polish regions. Enterprises listed on the stock exchange have financial and market successes, and can be a long-term shareholder in the financing of regional innovation over the long term. The goal of an integrated and competitive Polish capital market is to enable the acquisition of financial resources and to provide income for regional investments, thus constituting a factor supporting the development of Polish regions in the long term. This may contribute to an increase in R&D investment and, to a large extent, to creation of new jobs for the inhabitants of individual regions. The capital market will generate equity and investment capital, and thus will become a factor supporting the development of Polish regions.

### **3. Summary**

This paper proposes an integrated sequential model of organizational changes in the Polish capital market, extended by an integrated action package for the development of the Polish capital market, showing different rules to assist with implementation of the governmental SRD in the capital market with greater success. To this end, the article points to achieving coherence between the regulatory, economic and social spheres which have significant impact on regional development. The impact of the integrated sequential model of the Polish capital market on the development of Polish regions in the era of ongoing work on the government development strategy of the Polish capital market enables market participants to enter and allows for movement of the local self-government in the business environment, thus ensuring creation of attractive and competitive local capital companies. With the new streams of capital market revenues in the form of revenues from incomes taxes from companies listed on the stock exchange, this would enable better performance of existing enterprises in emerging markets and mitigate losses by improving integrated approach to risk management by capital market participants.

Currently, the development of the capital market depends, to a large extent, on the political risk incurred through the initiative to counteract threats in the framework of the decision-maker's activity. The argument for undertaking this action is to foster a highly competitive market among its participants. Activities and processes undertaken by the capital market should take into account political risk and management efficiency through searching for active solutions in this field. There is a justified premise (acc. to the Author) in the developed government development strategy of the Polish capital market in increasing the role and significance of LGU.

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