

# **ZARZĄDZANIE PUBLICZNE**

# **PUBLIC GOVERNANCE**

**3 (49) / 2019**



CRACOW  
UNIVERSITY  
OF ECONOMICS



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The original version of the magazine is its printed version. The magazine is available in the following databases: CEEOL, CEJSH, BazEkon, BazHum, EBSCO (Business Source Corporate Plus, Ultimate Business Source), ERIH Plus, ICI World of Journals/ICI Journals Master List, ProQuest

ISSN 1898-3529

e-ISSN 2658-1116

Graphic Design – *Agata Łankowska*

Copy Editing – *John Beauchamp*

Publisher

Malopolska School of Public Administration

Cracow University of Economics

ul. Rakowicka 27, 31-510 Krakow

phone: + (48) 122 937 560

www.msap.uek.krakow.pl

Publishing Partner

Scholar Scientific Publishing Company

ul. Wiślana 8, 00-317 Warsaw

phone/fax: + (48) 22 692 41 18, 22 826 59 21, 22 828 93 91; Sales Department: ext. 108

e-mail: info@scholar.com.pl; www.scholar.com.pl

Typesetting: WN Scholar (*Jerzy Łazarzski*)

Printing and binding: OSDW Azymut Sp. z o.o., Łódź, ul. Senatorska 31

Circulation: 200 copies

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Elżbieta Izabela Szczepankiewicz

## The development and quality of internal audit in public-interest entities and private sector entities in Poland

### Abstract

*Objectives:* The purpose of this article is to discuss the regulations governing and the functioning principles for internal audits in financial institutions and private sector entities in Poland. Additionally, this study presents selected results of empirical research with regard to the effectiveness of internal audits in organisations.

*Research Design & Methods:* To determine the research problems related to the functioning of the internal audit systems in financial institutions and private sector entities the author analysed specialist literature and reviewed earlier studies addressing this question. On the basis of the analysis of such literature and applicable legislation the author prepared an anonymous questionnaire and distributed it among internal auditors from a number of organisations.

*Findings:* This paper discusses the legal basis and functioning principles for internal audits in financial institutions and private sector entities. The analysis related to internal audit functioning in financial and private sector presented in this paper made it possible to argue that the greatest development over the last several years took place in banks and insurance companies. On the basis of a survey carried out in financial institutions and private sector entities in Poland, the author set out to assess internal audit efficiency in organisations. Summarising the analysis of the internal audits in these entities, it should be argued that internal audit is highly diversified in specific types of entities. This results from the fact that individual entities operate in various legal and organisational environments and they differ in terms of their objective activity.

*Implications / Recommendations:* This study has shown that the perception of the auditor's role and auditing efficiency varies significantly in comparable institutions. These audits are indeed necessary and demonstrate the efficiency of internal audits in the financial and private sectors. These conclusions should be considered as an inspiration for more advanced studies.

*Contribution / Value Added:* The author points to potential further research on internal audit efficiency in financial institutions and private sector entities.

*Article classification:* research article

*Keywords:* internal audit, public-interest entities, financial institutions, private sector entities, auditors

*JEL classification:* G 28, G 38, M 42, M 48

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## Introduction

For over twenty years, the approach to internal audit in organisations has undergone a particular transformation all over the world. Initially, an internal audit was an instrument used in many organisations only to verify the correctness of records made in accounting books. Over the years, the role of the internal auditor has significantly evolved towards examining all areas of the entity, taking into account evaluation of internal controls applied in the organisation, risk management and corporate governance.

In Poland, the term “audit” was used for the first time in commercial banks in the 1990s. Since 2002, the popularity of the internal audit has also grown in response to the requirements of the European Union in terms of the need to ensure proper use of financial means in the public finance sector. However, separate regulations and the path of internal audit development can be observed in financial institutions and in private sector entities (corporations and private companies).

In financial institutions and in private sector entities internal audits function at a varied level of development. The level at which internal audits operate in financial institutions significantly differs from audits carried in private companies. Since 2008, specific regulations concerning internal audits have been gradually introduced for individual categories of financial institutions. In other companies in the private sector, internal audits are still not obligatory. However, in practice many large companies and corporations have been using internal audits for many years.

Internal audit functions/positions already exist in many public-interest entities. In addition to introducing internal control systems, many financial institutions introduced internal control and/or internal audit functions and appointed audit committees a few years ago (Szczepankiewicz, 2011a). The pioneers in this area were commercial banks. The Polish financial sector features, *inter alia*, the following: 35 commercial banks, 556 co-operative banks, 27 insurance companies,

65 investment fund companies (managing more than 600 investment funds), 11 pension fund companies and three occupational pension schemes. Currently, internal audit functions in the private sector exist in many groups of financial institutions, in multiple publicly traded companies and in other companies as well. Publicly traded companies and financial institutions in Poland are considered to be public-interest entities.

The aim of this paper is to analyse the development of the internal audit function in public-interest entities and private sector entities in Poland. This paper covers the practical functioning of internal audits over the last 15 years in financial institutions and private companies. Factors stimulating the development of internal audits in individual groups of entities have been diagnosed. The most important regulations pertaining to functions of internal audit in individual categories of entities under analysis have been indicated. Additionally, this study presents selected results of empirical research with regard to the effectiveness of internal audits in public-interest entities and private sector entities. The research on added value and improving an organisation’s operations will be a valuable contribution to evaluation internal audit in those entities, because no Polish theorist has to date analysed the aspects of added value and improving an organisation’s operations.

## Literature review

Currently the model used around the world with regard to the application of internal audits in organisations has been derived from the USA. In 1941 the Institute of Internal Auditors (the IIA) was established in New York. The IIA is the largest international organisation connecting internal auditors all over the world. In those times the role of the internal auditor was mainly identified with financial and operational auditing, but at the end of the twentieth century the functions of internal audit became subject to significant transformation. This was most significantly affected by the changes in the rules published

by the New York Stock Exchange (the NYSE) and the Public Company Accounting Oversight Board, as well as the Sarbanes–Oxley Act (2002). The new model of internal control systems and the new role of internal audits in public-interest entities ensured greater control over the quality of provided information about the financial situation of companies. In subsequent years the IIA also changed the definition of internal audit published in International Standards for the Professional Practice of Internal Audit (2016). Currently the definition of internal audit indicates the need to add value to the organisation. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish the objectives thereof. The scope of an auditor's work includes the internal control system, risk management process, and governance processes.

The subject matter of the role, tasks, functions and development of internal audit has been brought up around the world in research publications for many years. For example, the work by Brink and Cashin (1958) concerns the role and organisation of internal audits. Gibbs and Schroeder (1979) describe the aspects of evaluating the competence of internal auditors. A study by Lampe and Sutton (1994) presents the process of evaluating the work of internal audit departments. Sawyer (1995) covers aspects of internal audit philosophy. Wang (1997) indicates the development trends and future prospects of internal auditing. Around the world many researches postulate the need to introduce changes in internal audits, as well as to expand the scope of the internal auditor's tasks. The role of internal audits in the risk management process should change towards a more strategic approach. Internal audits should prevent the occurrence of risk in an organisation in future, as well as enabling the organisation to act more effectively (Waring & Morgan, 2007; Daujotait & Macerinskien, 2008; Boța-Avram et al., 2009; Beliciu, 2012; Alwardat & Abdelhafid, 2014). Ruud (2003) describes the internal audit function as an integral part

of organisational governance. McNamee (1998) presents the process of business risk assessment in internal audits. Spira and Page (2003) look at aspects of risk management, and the reinvention of internal control and the changing role of internal audit. De Zwaan et al. (2011) discuss the subject of internal audit involvement in enterprise risk management.

Brody and Lowe (2000), Mutchler (2003), Ahlawat and Lowe (2004), and Ahmad and Taylor (2009) discuss the new role of the internal auditor and implications for internal auditor objectivity and independence. Boța-Avram et al. (2009) indicate the future perspectives of the internal audit function. Arena and Azzone (2009) examine the process of identifying organisational drivers of internal audit effectiveness. Studies by Gibbs and Schroeder (1979), Arena and Azzone (2009), and Endaya and Hanefah (2016) demonstrate that the effectiveness of an internal auditor's activities is conditioned by the characteristics of the internal audit team, including the qualifications and ethics. Internal audit effectiveness particularly increases when the ratio between the number of internal auditors and employees grows and the chief audit executive is affiliated to the Institute of Internal Auditors. Goodwin (2004) provides a comparison of internal audits in the private and public sectors. Hass et al. (2006) present the new trends in internal auditing. Currently around the world the new ideas regarding internal audits have caused a departure from verification of compliancy of activities carried out by the audited unit with internal and legal regulations and a move towards examining the effectiveness of the audited processes, resources management and the efficiency of the results.

In Poland theoretical studies and empirical research concerning the development of internal audits in entities of private sector (enterprises and companies) are less frequent. The most important are the studies of such authors as: Saunders (2003); Piaszczyk (2004); Jedynek (ed.) (2004); Herdan, Stuss and Krasodomska (2009); Szczepankiewicz and Dudek (2010); Szczepankiewicz (2010a, 2010b); Urbanek (ed.)

(2012); Ciechan-Kujawa (2014); Dobija (2014); and Skoczylas-Tworek (2014). In the studies, the authors focused on: (i) issues related to the organisation of internal auditing in public-interest entities; (ii) methods of performance of audit tasks; and (iii) the methods and tools used during risk analysis. Authors often address detailed questions connected with audit tasks, financial and investment processes, innovation and knowledge management, HR management, IT security, or the independence of internal auditors. However, only some authors point to the increasing influence of the internal audit function on minimising or reducing risk in the operations of entities.

The theoretical studies and empirical research concerning the development of the internal audit in financial sector are much less frequent, only the works by Lament (2006, 2013), Janc and Kałużny (2008), Mikołajczyk and Krawczyk (2010), Kiedrowska and Szczepankiewicz (2011), Szczepankiewicz and Kiedrowska (2011), and Szczepankiewicz (2011a, 2011b, 2012a, 2012b, 2014). As regards quality assessment of internal audits in Poland, only a few studies have been published, among them Bartoszewicz (2015a, 2015b), Szczepankiewicz (2017a, 2017b) and Oleksyk (2017). However, there are still insufficient methods and indicators to assess the effectiveness of internal audits in public-interest entities and other private entities.

## Methods of research

To determine the research problems related to the functioning of the internal audit systems in financial institutions and private sector entities the author analysed specialist literature and reviewed earlier studies addressing this question. On the basis of the analysis of such literature and applicable legislation the author prepared an anonymous questionnaire and distributed it among internal auditors from a number of organisations.

The study sample researched by the author consisted of a management staff survey and an internal documentation analysis. A total of

84 public-interest entities and other private sector entities were analysed, including the following: banks, insurance companies, listed companies and other commercial companies. Responses were submitted by management staff from the analysed organisations based in the Polish. The questions were addressed first of all to managers of audited departments dealing with finance, accounting and administration. The respondents were asked to provide descriptive justifications for their responses.

## Results of research

### Internal audits in banks

In Poland, internal audit functions have most often been established in banks. In 1992, after the economic transformation, a new banking law was introduced. On its basis a few state-owned banks and a dozen commercial banks with private capital were formed. In addition to those there were also more than 400 co-operative banks in the Polish banking market. In 1992 the National Bank of Poland developed guidelines on the introduction of internal auditor or controller positions in all banks. Back then the first control (or control & audit) departments were being formed in banks (Szczepankiewicz, 2011b, 2012a). Now all major banks operate internal audit departments. However, banks were not legally required to follow the said guidelines.

Until 2006 banks were supervised by two public institutions: the Commission for Banking Supervision (*Komisja Nadzoru Bankowego*, the KNB) and the General Inspectorate of Banking Supervision (*Generalny Inspektorat Nadzoru Bankowego*, the GINB). Both of them liaised with the Polish Institute of Internal Auditors at the Polish Banks Association. Acting on the recommendations of the Basel Committee and in co-operation with the KNB and the GINB, the National Bank of Poland developed a series of Polish recommendations for banks. In 2006 the roles of the KNB and the GINB were taken over by the Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*,



the KNF) that has been supervising banks' operations and publishing a variety of guidelines and recommendations since then (Urbanek, 2012).

In 2008 the banking law was amended (2008) and a formal obligation to establish internal audit departments in all state-owned and commercial banks was introduced (Szczepankiewicz, 2011b). While individual co-operative banks are exempt from the new obligation, federations of co-operative banks are not. Internal audits in co-operative banks associated in a federation are out by audit departments from the head bank (Co-operative Banks Act, 2016; Szczepankiewicz, 2011b).

One of the amendments to the Act on Statutory Auditors and Public Supervision (2009) required banks to establish audit committees. Their responsibilities include assessment of internal control and risk management systems, as well as supervision over internal audits (if the bank in question has established an internal audit function).

Initially, many banks developed their own internal regulations and standards governing the functioning of internal audits. Today, with regard to internal audit and control, banks are required to follow a number of amended legislative acts, such as the Banking Law Act (2019) and the Act on Statutory Auditors, Auditor Firms and Public Supervision (2019), and resolutions and recommendations of the KNF, including: Recommendation H on banks' internal control systems and internal audits (1999, 2002, 2011, 2017) and the Recommendation on Audit Committees (2010).

Banks' management boards and audit committees should also take into consideration the KNF recommendations and guidelines developed on the basis of BCBS recommendations (Recommendation D, H, M, L and others), COSO – internal control reports (COSO Report, 1992, 1994; COSO II Report, 2004), as well as the Code of Best Practice for WSE-listed Companies (2007), if the bank is quoted on the Warsaw Stock Exchange. Currently most banks already follow the International Standards for the Professional Practice of Internal Audit

(1998, 2001, 2009, 2012, 2016), developed by the Institute of Internal Auditors (IIA).

### Internal audits in insurance and reinsurance companies

The Act on Statutory Auditors and on the Public Supervision (2009) requires insurance and reinsurance companies to appoint audit committees. After the 2010 amendment of the insurance law, insurance and reinsurance companies had to develop and introduce risk acceptance principles and internal control systems (the Act on Insurance and Reinsurance, 2019).

Since 2010, insurance and reinsurance companies have been required to appoint audit committees (Szczepankiewicz, 2012b), while internal audit functions in such companies have been formally appointed only since 2013, as such appointment was not legally required before that date (Szczepankiewicz & Kiedrowska, 2011; Szczepankiewicz, 2012b). The internal audit obligation in insurance and reinsurance companies was introduced by amending Polish insurance law, after the adoption of Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) and the new Polish insurance law in 2013 (Szczepankiewicz & Kiedrowska, 2011; Solvency II, 2013; Lament, 2013). Initially, internal auditing guidelines were developed by the Polish Insurance Association (*Polska Izba Ubezpieczeń*, the PIU). Today, most insurance and reinsurance companies already follow the International Standards for the Professional Practice of Internal Audit (2016). Standard No. 2.2.6. on Enterprise Risk Management for Capital Adequacy and Solvency Purposes has also been introduced (International Association of Insurance Supervisors, 2008; Mikołajczak & Krawczyk, 2010; Kiedrowska & Szczepankiewicz, 2011).

The KNF also supervises the operations of insurance and reinsurance companies. As regards the appointment of audit committees, such companies follow the Recommendation on

Audit Committees (2010) and the Act on Statutory Auditors, Audit Firms and Public Supervision (2019).

#### Internal audits in investment fund and pension companies

The regulation on internal control in 2009 required investment fund companies to introduce internal supervision, risk management and internal audit systems. The regulation also required them to create an in-house internal control function and to develop and introduce an internal control system. However, it was only in 2013 that internal audit functions began to formally exist in investment fund companies (Szczepankiewicz, 2014). Internal auditing principles in investment companies and in funds managed by them were defined in 2013 by the new regulation on the organisation of investment fund companies (Regulation of the Minister of Finance, 2013). The regulation also introduced a new set of internal control and risk management rules applicable to investment funds. Currently, many investment fund companies have already implemented the International Standards for the Professional Practice of Internal Audit (2016). The Act on Statutory Auditors, Audit Firms and Public Supervision (2019) required investment fund companies to appoint audit committees.

So far, the internal audit obligation has not been formally introduced in pension companies (the Pension Fund Business Act, 2016). Pension companies must only operate internal control systems. However, some of them have voluntarily formed internal control or internal audit functions. In 2017, the Act on Statutory Auditors, Audit Firms and Public Supervision required pension companies to appoint audit committees. As regards the appointment of audit committees, pension companies also follow the Recommendation on Audit Committees (2010) from the KNF. The KNF supervises the operations of investment fund companies and pension companies as well as investment and pension funds.

#### Internal audits in other private sector entities

The Polish private sector is characterised by significant differences in the degree of development of internal audit systems (e.g. Szczepankiewicz & Dudek, 2009, 2010; Szczepankiewicz, 2010a, 2010b). In 2003, Polish companies affiliated with capital groups listed on American stock exchanges began introducing formal internal control systems and carried out internal audits. Their key motivation was the need to ensure compliance with the American Sarbanes–Oxley Act of 2002.

Internal audits in the private sector were also boosted by international corporations commencing operations in Poland. Therefore, many companies that are part of such corporations currently operate internal audit functions. In international corporations, internal audits are usually centralised. Audit functions from the headquarters periodically audit individual foreign branches. Sometimes local internal audit functions are also established in such foreign branches, varying in size from one to a few FTEs. They submit audit reports to the central internal audit department at the corporate headquarters.

Many smaller companies have also begun implementing internal audit, either inspired by their foreign business partners/creditors or convinced by external advisors/consulting companies. As no Polish standards in this regard have been adopted to date, companies follow the standards developed by the IIA (2016), introduced by their foreign business partners or generally used in a given industry.

As regards the appointing of corporate governance and audit committees (Szczepankiewicz & Dudek, 2009, 2010; Szczepankiewicz, 2010a; Urbanek, 2012) all WSE-listed companies also follow the Code of Best Practice for WSE-listed Companies (2007), the Recommendation on the Audit Committee (2010) and the Act on Statutory Auditors, Audit Firms and Public Supervision (2019).

## Similarities and differences between internal auditing in financial institutions and in the private sector entities

To conclude the analysis of regulations and documents on internal audits in financial institutions and the private sector entities one can point out a few basic similarities and differences between them. The results of the comparison are presented in Table 1.

## Performance audits as a new idea for internal audits in organisations

Grönlund, Svärdesten and Öhman (2011) and Lisiecka (2012) and Bartoszewicz (2015) argue that the new idea for internal audits in organisations initiated a departure from verification of compliancy of activities carried out by the audited unit with internal and legal regulations and a shift towards examining the effectiveness of the audited processes, resources management and the efficiency of the results. It is crucial to analyze the results

Table 1. Similarities and differences of internal audit operations in financial institutions and in the public finance sector

Financial institutions	Private sector entities
<b>Legal basis</b>	
Banking Law (2019) and Recommendation H in banks (2017)	WSE-listed companies and other private entities are not formally required to carry out internal audits
Insurance and Reinsurance Law (2019)	Recommendation on Audit Committees (2010) in WSE-listed companies
Regulation on investment fund companies (2013) and Investment Fund Law (2019)	
Recommendation on the Audit Committee (2010) in public-interest entities (including in financial institutions and in WSE-listed companies)	
Other financial institutions are not formally required to carry out internal audits	
<b>Year of introduction of the legal obligation to carry out internal audits</b>	
<ul style="list-style-type: none"> <li>• 2008 commercial banks and head banks of co-operative banks federations</li> <li>• 2012 insurance sector institutions</li> <li>• 2013 investment fund companies</li> </ul>	Not formally required to carry out internal audits.
<b>Purpose of internal audits</b>	
To support the entity's management, in accordance with applicable laws and internal regulations on internal auditing.	
<b>Qualifications of internal auditors</b>	
No legislation in this regard	
<b>Supervising body</b>	
Audit Committee, or supervisory board, or president of the board of directors, or board of directors	
<b>Scope of internal audit</b>	
All areas of activity or areas specified in Internal Audit Rules of Operation	
<b>Internal audit tasks</b>	
As provided for in internal audit rules of operation adopted by the entity or International Standards for the Professional Practice of Internal Audit (2016)	

Source: Author's own work.

achieved or evaluate the actions taken by the unit from the point of view of effectiveness, efficiency and economy. The criteria of performance audits are presented in Table 2.

Performance audits indicate the need for proper preparation of the unit to carry out such audits (Bartoszewicz, 2015c):

- clearly defined objectives of the activity carried by the audited unit, the implementation of which will be subject to examination;
- proper indicators for measuring achievements in the form of quality measures, effectiveness of operations and costs of service;
- efficient system for data acquisition and analysis, to make it possible to evaluate the activities in terms of economy, efficiency and effectiveness;
- efficient communication system in the organisation; and
- ongoing monitoring and reporting of the degree of achieving the objectives.

In the opinion of the author, these assumptions can also be introduced in financial institutions and other entities which have been systematically developing internal audits in recent years in Poland.

## An empirical study on added value

In 2016–2017, the author carried out an empirical study on audit quality and added value contributed by internal audit to organisations. All surveyed public-interest entities and other private sector entities had their own internal audit departments.

Many internal auditors from the analysed entities are confirmed by holding a diploma of postgraduate studies in the field of internal audit (75%) or qualifications of the statutory auditors (6%). Many persons have also one or several international certificates (11%): e.g. Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), Certified Fraud Examiner (CFE), Association of Chartered Certified Accountants (ACCA), Certified Financial Services Auditor (CFSA), Certification in Control Self Assessment (CCSA) or Chartered Financial Analyst (CFA). Many internal auditors from the analysed entities participate systematically in training for internal auditors (64%). Only 5% of the internal auditors from the analysed entities are confirmed by holding a diploma of postgraduate studies in the field of internal audit and international certificate. The details of qualifications of the internal auditors from the analysed entities are presented in Table 3.

Table 2. The criteria of performance audits

Criterion	Audited object	Characteristic
Effectiveness	Results	Effectiveness aims at verifying the implementation of objectives planned by a given unit and evaluating the results of the activities undertaken. Audits based on the effectiveness criterion: examining the results of task implementation is evaluated.
Efficiency	Processes	Efficiency is the measure of using resources by the entity and the indicator of the costs incurred. Audits based on the efficiency criterion: examining the efficiency of the product/service, unit costs, indicators, e.g. those describing the level of the resource use, service lead time, etc. are verified.
Economy	Resources	Economy indicates the scope of activities undertaken by the unit and measures whether the costs were minimised in the activities conducted while preserving their quality. Audits based on the economy criterion: examining the scope in which the use of the resources (financial resources, personnel, equipment, accommodation resources) for carrying out the activities is minimised, also having in mind the need to ensure proper quality of the activities implemented.

Source: based on Grönlund, Svärdesten and Öhman (2011), Lisiecka (2012), and Bartoszewicz (2015c).

Table 3. The qualifications of the internal auditors from the analysed entities

Type of the surveyed entity	Only diploma of postgraduate studies (%)	Qualifications of a statutory auditor (%)	Only international certificates (%)	Diploma of postgraduate studies and international certificate (%)	Does the internal auditor attend training courses? (%)
Banks	68	7	17	8	82
Insurance companies	82	4	7	4	69
Listed companies and other commercial companies	76	6	8	2	42
Medium:	75	6	11	5	64

Source: Author’s own work.

Table 4. The average period of employment of the internal auditors from the analysed entities

Type of the surveyed entity	Under 5 years (%)	5–10 years (%)	Over 10 years (%)
Banks	0	8	92
Insurance companies	4	72	24
Listed companies and other commercial companies	56	42	2

Source: Author’s own work.

The internal auditors from the analysed entities gained their professional experience in various organisations. The average period of professional experience of the internal auditors from the analysed entities is presented in Table 4.

The survey consisted of three questions:  
 (1) Would you say that the internal audit function in your entity provides high quality services?

(2) Has internal audit enhanced the operations of / contributed added value to your entity?  
 (3) Has the number of consulting tasks compared to objective assurance tasks increased over the last two years?

The results of the research are presented in Tables 5–7.

Table 5. Would you say that the internal audit function in your entity provides high quality services?

Type of the surveyed entity	Response (%)		
	Yes	No	Hard to say
Banks	86	5	8
Insurance companies	82	9	9
Listed companies and other commercial companies	68	13	19
Average:	79	12	12

Source: Author’s own work.

Those respondents who answered “yes” indicated that assurance and advisory services provided by the internal audit function were of high quality. The highest internal audit quality was reported in financial institutions, followed by listed companies and other commercial companies operating internal audits. The highest result was recorded for banks (just under 86%). In listed companies and other commercial companies only 68% of the respondents said that assurance and advisory services provided by the internal audit function were of high quality.

Those respondents who answered “no” were of the opinion that internal audit functions provided services of very low quality. In their organisations the management could not use internal audit results for improving the operations of the internal audit function or the audited area.

As many as 19% of the respondents were unable to assess internal audit quality in listed companies and other commercial companies, as compared to 8% in banks and 9% in insurance companies.

Those respondents who answered “yes” indicated that internal audit services were necessary and contributed added value to the organisation. Those who answered “no” were of the opinion that internal audit did not contribute any added value, either because its services were of very low quality or because it did not enhance the entity’s operations in any way.

The highest level of added value contributed by internal audit to the organisation was reported by respondents from banks (just under 88%). Levels reported by respondents from the insurance companies were lower (just under 63%). In listed companies and other commercial companies the rate of positive responses to the question about added value contributed by internal audit to the organisation was below 44%.

Those respondents who answered “yes” indicated that in the last two years internal audit had been providing more and more consulting services for the management. Those who replied “no” were

Table 6. Has internal audit enhanced the operations of / contributed added value to your entity?

Type of the surveyed entity	Response (%)		
	Yes	No	Hard to say
Banks	88	6	6
Insurance companies	63	12	15
Listed companies and other commercial companies	44	5	50
Average:	65	8	24

Source: Author’s own work.

Table 7. Has the number of consulting tasks compared to objective assurance tasks increased over the last two years?

Type of the surveyed entity	Response (%)		
	Yes	No	Hard to say
Banks	92	2	6
Insurance companies	83	15	12
Listed companies and other commercial companies	54	18	28
Average:	76	12	13

Source: Author’s own work.

of the opinion that the number of advisory services provided by internal audit had not increased.

The highest increase in the number of consulting services provided by internal audit was recorded for banks (92%), followed closely by insurance companies (83%). In listed companies the rate was clearly lower (54%).

The following conclusions were drawn from the empirical study:

1. Most internal auditors who hold international certificates are employed in banks, where 17% of auditors have such certificates. In other entities, certificates are held by fewer than 8% of auditors.
2. In insurance companies (3%) and in other companies (8%) internal audit positions were occupied also by persons with qualifications other than those listed in Table 1, such as risk specialists, experienced accountants, etc. This can be explained by the fact that there are no rules in force concerning professional qualifications of internal auditors employed outside the public sector. In the private sector, it is the management that determines the requirements to be met by candidates seeking to become an internal auditor, usually on a case-by-case basis.
3. The percentage of internal auditors regularly participating in internal audit training was highest in banks (82%), and lowest in listed companies and other commercial companies (42%). These results reflect the management's approach to the need for improving auditors' qualifications and to their advisory role.
4. 92% of auditors employed in banks have more than 10 years of professional experience. Only 4% of auditors in insurance companies have such long experience, compared to only 2% in listed companies and other commercial companies. The study results in this respect reflect the timing of introducing regulations concerning obligatory internal audit (2008 in banks and 2013 in insurance companies). However, many entities voluntarily set up internal audit functions many years ago. Internal auditors from the analysed entities gained their professional experience in various organisations.
5. The empirical study shows that the higher the qualifications of internal auditors and the longer the professional experience and the more regular their participation in professional training, the higher the quality of internal audits. In banks 86% of the respondents are satisfied with the quality of internal audits, compared to only 68% in listed companies.
6. The higher the qualifications of internal auditors and the longer the professional experience and the more regular their participation in professional training, the greater the value added by internal audits to the organisation. In banks 88% of the respondents believe that internal audits contribute added value to the organisation, compared to only 44% in listed companies.
7. Respondents confirmed that over the last few years the quantity of consulting services has increased in relation to objective assurance tasks. This means that the role of internal auditors is changing. The auditor is becoming an adviser to rather than just somebody who checks the management. The more advisory tasks are carried out, the greater added value is contributed to the organisation, because the management can more quickly respond to current risks and protect their organisations against risks in the future.

The conclusions from the present empirical research regarding the relationship between internal audit quality on the one hand and internal auditors' professional experience on the other are consistent with conclusions previously presented by many other authors (e.g. Gibbs & Schroeder, 1979; Arrena & Azzone, 2009; Endaya & Hanefah, 2016).

The research on added value and improving an entity's operations will be a valuable contribution to evaluation internal audit in Polish financial institutions, listed companies and other commercial companies, because no Polish theorist has to date analysed the aspects of added value and improving an entity's operations.

## **Final conclusions and directions for further research**

Since 2008 Polish lawmakers have been passing regulations governing the functions of audit committees, establishment of internal control systems and introduction of internal audit to various organisations outside the public sector.

Summarising the practice of internal audits in Poland, one should note that it is highly diversified in specific types of entities. This results from the fact that individual entities operate in various legal and organisational environments and they differ in terms of their objectives, size, complexity and structure. Such conditions unquestionably affect the need to apply various solutions as regards carrying out an audit. The analysis related to internal audit functioning in Poland, presented in the paper, made it possible to claim that its greatest development over the last several years took place in banks and insurance companies.

Organisational solutions introduced in financial institutions and private companies in Poland differ from those introduced in public administration bodies. For example, depending on the solution in place, audit functions in financial institutions and companies may report either to the audit committee (or the supervisory board) or to the management board. Audit results are communicated by the internal auditor to the management and to the supervisory body. However, it is the management that determines (on the basis of those results and internal audit recommendations) the measures to be taken and subsequently ensures the taking thereof.

In the absence of Polish regulations with regard to the development of internal control systems, the Polish Financial Supervision Authority recommends that financial institutions and listed companies follow global concepts presented in COSO reports and IIA Standards.

All newly created regulations in Poland for different sectors of financial institutions take a similar approach to internal audits. In all such institutions, audit committees, internal audit and internal control systems should constitute the basic

elements of internal control and concept of integrated risk management system (Szczepankiewicz, 2011c). An important addition to internal control is financial audits carried out by statutory auditors.

At a time when economic crises pose an imminent threat, when effective management of public-interest entities is so important, the performance audit has become a necessity. At present, each entity, regardless of the sector or industry it operates in, its legal form or size, should operate in a purposeful and economical manner, preserving the principle of achieving the best effects of its expenditures. Therefore, in the opinion of the author, detailed research concerning this topic should be undertaken.

The author is of the opinion that it is necessary to continue research to the efficiency and effectiveness of internal audits in public-interest entities and private sector entities. In this way, answers to the following questions may be easier to find:

- 1) How are internal audits perceived in private sector? Is the auditor merely an inspector controller, or perhaps also an advisor to the senior management and the board?
- 2) Which areas of internal audits in the analysed entities need to be improved?
- 3) Would the internal audit function in an entity provide high quality services?
- 4) Have internal audits contributed added value to an entity?

The research will be a valuable contribution to evaluation internal audit in those entities, because no Polish theorist has to date further analysed those aspects.

## **Acknowledgments**

This paper has been written as part of project No. 51109-XX5 “Theoretical and practical aspects of the assessment of the internal audit function in the public sector”. The project is carried out by the University of Economics in Poznań. The research problems were presented at the 17<sup>th</sup> European Academic Conference on Internal Audit and Corporate Governance, Paris 24–26 April 2019.



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Krzysztof Beck, Julia Shtunderenko

## The prospect of Intermarium integration in the light of consumption risk sharing

### Abstract

*Objectives:* After the collapse of Communism in Central and Eastern Europe, the idea of joining a prosperous bloc, which would provide financial assistance, seemed an opportunity not to be missed. However, with the possibility of the funding drying up, and the initial feeling of euphoria fading, the alignment of CEE and Western Europe on values was put to a test. This gave way to discussions about alternatives to the EU. One of them is Intermarium. This paper examines the potential benefits Intermarium countries could attain in terms of consumption risk sharing.

*Aims:* The research takes an alternative approach to economic integration, concentrating on economic stability. In particular, it makes an empirical analysis of consumption risk sharing in Intermarium, as well as drawing a comparison with the EU and the euro zone core.

*Research Design & Methods:* The paper uses method of risk sharing assessment proposed by Kose et al. (2009) extended by the authors to accommodate panel data setting.

*Findings:* As the empirical results illustrate, the past integration between the old EU and its new member states weakened the Intermarium mechanisms of consumption insurance, especially in comparison to the euro zone countries.

*Implications / Recommendations:* The potential benefits of Intermarium fall short of the EU alternative.

*Contribution / Value added:* The paper presents the results of the first examination of the extension of risk sharing in Intermarium countries.

*Article classification:* research article

*Keywords:* Economic Integration, Risk-Sharing, European Union, Intermarium

*JEL classification:* F15, F22, F36, F41

### Introduction

In the aftermath of the fall of Communism in Europe, Central and Eastern Europe (CEE) had to make a pivotal choice regarding its future. For most post-Soviet countries, joining the European Union seemed to be the most

desirable option, which was supported by most scholars, politicians and the general public. As a result of years of negotiations, eleven post-Communist states were able to join the European integration bloc, while the remaining countries are still negotiating today.<sup>1</sup> In the early 2000s, the Intermarium countries, and the new member

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<sup>1</sup> With the exception of Belarus.

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states, in particular were enthusiastic about the idea behind EU integration and the values it represented. This can be seen in public opinion polls carried out by the EU in 2004, just after the new member states joined the bloc. On average, the Intermarium countries that joined the EU in 2004 and 2007 were among the most optimistic about the EU and its future. The EU funding scheme has also been a significant contributor to that sense of optimism, as the financial aid allocated under the Cohesion and IPA funds could be spent on improving their disadvantaged economies.

However, in recent years there has been a shift in perception of the EU in CEE. For example, public opinion polls suggest that there is more distrust towards the European Union and less alignment when it comes to key policy issues, such as migration, in particular. Moreover, funding is expected to decrease, and its initial impact is wearing off. In addition, in the early 2000s, the policy makers of the new member states were praising the membership in the EU as a “dream becoming reality” (Kwaśniewski, 2004). Today, there are a few disputes between the new member states and the European Union that have to be settled in court. This is particularly striking, as the disputes are with Poland and Hungary, the two member states which were at the top of the list of “proud to be European” in 2004 polls.

These recent developments have given way to discussions about possible alternatives to the EU in CEE. One of them is Intermarium, a term developed in the Interwar period by Józef Piłsudski, which referred to the European countries between the Adriatic, the Baltic, and the Black seas. However, from the political science perspective, it is difficult to assess the likelihood of Intermarium integration, as there is no evidence to indicate that even the most skeptical member states of the European Union will leave the bloc. Therefore, the aim of this paper is to explore the economic feasibility of Intermarium. To accomplish that, this paper takes an alternative approach to economic integration, concentrating on economic stability, rather than standard GDP

growth indicators, which is an overwhelmingly analysed subject in both theory and empirical research. In particular, it makes an empirical analysis of consumption risk sharing in Intermarium, as well as drawing a comparison with the European Union and the EU core. Consumption risk sharing is the ability of states to insure their consumption path against idiosyncratic shocks to national income. This paper examines the potential benefits of consumption insurance that Intermarium could attain by pursuing closer integration.

As the empirical results illustrate, the past integration between the old EU and its new member states weakened the Intermarium mechanisms of consumption insurance, especially in comparison to the euro zone core countries. At the same time, quantitative results demonstrate the extent of potential gains in terms of risk sharing by engaging in consequent stages of integration. Moreover, for new Member States the possibility of disintegration from the EU would be associated with a sharp decline in risk sharing with those countries, and the time span to achieve comparable results with the rest of the Intermarium countries would be rather extensive. Withdrawing from the EU would be a step away from developing mechanisms of international consumption insurance and a move to an uncertain future within the Intermarium block. All in all, as potential benefits of Intermarium are immanent, they still fall short of the EU alternative.

The rest of this paper is organised as follows. The first section outlines the background behind and the motivation for this paper. Section two describes the concept of risk sharing and gives a brief review of literature on the subject. The methodology is described in the third section, while the empirical results are reported in section four. The last section concludes this paper.

## Background and Motivation

“Today our dream is becoming reality” – Aleksander Kwaśniewski (CNN, 2004).

In the early 2000s, this sense of excitement around the EU applied to all Intermarium countries.

The Czech President even claimed that “there is no alternative to European Union membership” (Klaus, 2009). The EU appeared to be road to affluence, stability and freedom.

In retrospect, it becomes clear that a few would agree with Jonathan Levy, who claimed that “CEE is surely taking a risk in blindly trusting its fate to the EU with no provision for alternative solutions” (Levy, 2007). Indeed, there was little space for alternative paths, many saw EU membership or the CIS (Community of Independent States) as the only two options available, and the West had something CEE had not seen in decades: prosperity.

The primary reasons for EU aspirations included the freedoms that come with it. Indeed, various scholars considered that after the collapse of Communism, CEE would reintegrate with the West to fully escape from the “tyrannical rule, an idiotic economic system and a ritualized ideology” (Beissinger, 2009) that Communism represented. According to Jack Snyder, in a text published in 1990, one of the most viable options for the CEE would be “to recruit reformist Eastern regimes into the West’s already well-developed supra-national political order” (Snyder, 1990).

EU membership has also been supported by the general public in CEE. This paper has

examined the EU public polls from 2004 among the Intermarium EU Member States (Latvia, Lithuania, Estonia, Poland, the Czech Republic, Hungary, Slovakia, and Slovenia) and candidate countries at the time (Croatia and Bulgaria). The polls show that the Intermarium states were among the most enthusiastic about the EU. For instance, 87% of Hungarians, 82% of Slovenians and 81% Poles claimed to take pride in being European (Eurobarometer 62), while the EU average at the time was 68%.

This enthusiasm was also fuelled by the EU funding scheme, and the economic prospects that came with it. This was particularly important, given that the economies of the newly-independent countries were lagging behind the EU core. Table 1 reflects the amounts of the Cohesion Fund that have been allocated to the Intermarium countries in the period of 2000–2006. As the table shows, most of the funding was spent on basic infrastructure development.

These numbers demonstrate that the Intermarium states which joined the EU in 2004 have received significant financial assistance from the Cohesion Fund. The EU core states have largely been the contributors thereto. It is important to note that this trend has continued throughout the 2010s and have continued in the 2014–2020 budget. In addition, Intermarium countries outside of the EU have also received financial aid as a part of the European Neighbourhood Policy (the ENP). For instance, in the period 2007–2013 ENP aid to Belarus amounted to €94.2 million, and €1005.5 million was allocated for Ukraine.

Given the data above, one can argue that the funding scheme significantly contributed to the feeling of euphoria around the EU. However, there is some strong evidence to suggest that the euphoria is fading, and the attitudes of CEE towards the EU have started to shift. An illustration of this is the same Eurobarometer poll taken in 2017, which showed some very different results from 2004. For instance, the polls showed that 56% of Czechs, 55% of Slovenians and 51% of Croats do not trust the EU (Eurobarometer 88).

Table 1. Cohesion Fund allocation to the Intermarium EU Member States, 2000–2006

Country	Total amount allocated	Share spent on Basic Infrastructure
Czech Republic	€ 1 100 869 907	99.9%
Estonia	€ 430 555 481	99.6%
Hungary	€ 1 478 658 566	98.6%
Latvia	€ 707 260 462	99.6%
Lithuania	€ 825 950 073	96.0%
Poland	€ 5 531 545 011	98.8%
Slovakia	€ 766 500 642	99.8%
Slovenia	€ 254 312 402	98.9%

Source: Final Report – ERDF and CF Regional Expenditure Contract No. 2008.

To contrast, the level of distrust in the Czech Republic in 2004 was 32%, in Slovenia it was at 28%, and the average for Intermarium was 28%, compared to 42.6% in 2017. While this does not suggest that these countries would be willing to leave the EU, it is a clear signal that the EU is no longer perceived as a “dream becoming reality”.

To illustrate this point even further, this paper has also examined data from the Hungarian Századvég Foundation, which has been carrying out opinion polls in the EU Member States. In many areas the results of the foundation correspond to the Eurobarometer. For instance, on average, in Intermarium countries 15.6% have a negative perception of the EU, while 42.5% have a neutral perception of the EU. Moreover, in 2017 32% of people in Intermarium EU member states agreed with the statement that the European Union will not exist in ten years. This is a striking difference from the opinions in 2004 (Project 28, 2017).

Furthermore, in the same way that the funding scheme has been contributing to the enthusiasm around the EU, it may now be contributing to the changing attitudes towards the EU. The Cohesion Fund is aimed at aiding the less developed regions of the EU. This funding will reach its inevitable end – the member states on the receiving side will have to become contributors rather soon. At the moment, Intermarium EU Member States still remain in the list of countries that are below 75% EU GDP per capita but some parts of these states, for instance, Prague and the Mazowieckie province in Poland, are already on the list as more developed regions. It could be argued that due to the fading enthusiasm around EU membership, and the decrease in funding, the ideas of an alternative solution for CEE are gaining attention again.

In addition, it is worth mentioning that the marginal utility of the funds provided by the EU is decreasing. As shown in Table 1, most of the funding was going to basic infrastructure which is essential for every country. Now much of the Cohesion Fund is aimed at protecting the environment and promoting the “low-carbon economy in all

sectors” (European Structural and Investment Funds 2014–2020). Although this is undoubtedly an utterly necessary initiative, it is still not great news for countries such as Poland, which relies heavily on coal-mining and the government of which rigorously defends the industry. One could suggest that this was another reason for a change of attitude towards the European Union.

Once the euphoria around the EU started losing its shine, new conflicts have appeared between the EU core and CEE. As mentioned above, political freedom and independence were among the reasons why post-Communist states wanted to join the bloc. Nowadays, however, some states even argue that they lost their political freedom and independence after joining the EU. The best example for this would be Poland, as in 2017 alone the EU wanted to launch two court cases against this Member State. The ruling party of Poland (PiS) started judiciary reforms which, they claim, would reduce corruption. These reforms are perceived as highly controversial in the EU, with commentators going as far as to claim that they are “an erosion of judicial independence” (Davies, 2017). The EU responded to this by invoking Article 7, under which a Member State in violation of EU policies can be stripped of certain rights within the bloc (EU website, the Lisbon Treaty). The Polish government has expressed its frustration in response to these accusations, claiming that the EU’s reaction was “unnecessary political pressure exerted by European institutions” (the Ministry of Foreign Affairs, 2017). This seems very distant from Poland that “has long been praised as a role model for its transition from communism” (Noack, 2017).

A similar situation can be seen in the neighbouring Czech Republic and Hungary, against which the EU has also launched legal action. This is connected to the recent refugee crisis. The EU refugee relocation scheme required Member States to accept their share of asylum seekers. The Czech Republic, Hungary and Poland refused to participate.

It is important to note that the three states all argued participation would result in terrorist attacks.

This leads to a significant issue that has been overlooked by the politicians in the early 2000s: the EU takes its values very seriously, and those values do not always correspond to the prevailing opinions in the Intermarium states. Tolerance towards other cultures is one of such values. The Intermarium states struggle with tolerance, as they are still mostly homogenous in this respect. To give an example, the UN Refugee Agency had to specifically urge Hungary to “refrain from policies and practices that promote intolerance, fear and fuel xenophobia against refugees and migrants” (UNHCR, 2015). Due to these attitudes the Czech Republic, Poland and Hungary did not comply with their refugee quotas, despite various threats and warnings from EU institutions. The most important implication of this is that the membership of the EU, which was once seen as extremely positive, is now causing major issues for the new member states.

This, in turn, brings us to another important point made by Jonathan Levy: “The EU, despite its great success, may be a fragile union resting on the assumption that members will at critical times rationally put aside national or parochial self-interest for the greater good of ‘One Europe’” (Levy, 2007). While using the word ‘fragile’ to describe the EU might be a step too far, given the recent developments in the union (e.g. Brexit), one could argue that the bloc is not as united as it was in the early 2000s. This would primarily be because currently there is less alignment on common policies between EU Member States. To illustrate this, polls taken in 2017 suggest that 36% of people in Intermarium states in the EU say that they “Oppose a Common European Policy on Migration”, while the EU28 average is 11 percentage points lower, at 25% (Eurobarometer 88).

Another major difference in values between the Intermarium countries and the Western European states is the way they view homosexuality and the legislation around it. Most Intermarium states prohibit same-sex unions, with only the Czech Republic, Croatia, Slovenia and Hungary allowing civil unions (Boffey, 2018). Historian

Chodakiewicz argues that when it comes to “environmentalism, feminism and gay liberation”, “only a portion of those ideologies are indigenous to the Intermarium” (Chodakiewicz, 2012). He takes a rather harsh stand on the issue claiming that these are “transplanted” to CEE (Chodakiewicz, 2012). This paper does not fully agree with that statement; nevertheless, there is more than enough evidence to state that Intermarium and the West are not on the same page when it comes to homosexuality.

To illustrate, during a Pride parade in Lithuania in 2013, people were throwing eggs at the participants. In Ukraine, the first ever Pride parade took place in 2013, after being cancelled the year before because of a group of skinheads that were threatening the participants of the march (BBC, 2013). At the same time, Serbia had banned the Pride parades for two years prior to that, as police claimed they could not guarantee security for the participants (McDonald-Gibson, 2013). A clear pattern of rejecting the premise of equal rights for homosexual partnerships can be observed here. It is still up for a debate whether this is due to the totalitarian Communist past of the Intermarium countries – and they would ‘grow’ into it as they develop in the direction of liberalism – or, as Chodakiewicz claims, these ideas are “imposed by fiat by visiting Western leftist or brought back home by the naïve beneficiaries of Western scholarships” (Chodakiewicz, 2012). However, it is clear that CEE attitudes towards homosexuality are not likely to change soon.

To conclude this section, CEE was very eager to join the European family after the collapse of Communism. However, this section shows that the vision of the member states of the economic union is not as aligned as it used to be. This has been illustrated by analysis of opinion polls, particularly in the case of the Czech Republic, Croatia and Slovenia, where more than 50% of people stated that they do not trust the European Union. This can be further seen in lack of agreement on common policy questions, such as migration or homosexuality. Decreases in funding further contribute to the fading enthusiasm towards



the EU in both the new member states and the ENP countries. At the moment, there is not enough evidence to suggest that any of the Intermarium EU Member States would be willing to leave the bloc. However, this change in attitudes makes an idea of Intermarium integration worth exploring.

## Risk sharing

Economic debates over the consequences of economic integration date back to Adam Smith (1776), who described the benefits coming from international specialisation and more efficient use of resources. This debate is even more pronounced nowadays in the era of globalisation, and there is no better example of the outcomes of integration than contemporary Europe. Nevertheless, current debates still concentrate on the benefits of integration associated with economic efficiency: whether economic integration through the more efficient use of resources can bring about (temporarily or permanently) higher rates of real GDP or GDP per capita growth. What is often overlooked in the growing literature on economic integration is the second strand of potential gains, i.e. the possibility of consumption risk sharing.

International consumption risk sharing is defined as the ability of agents to diversify their portfolios in order to insure their consumption against the country specific shocks to their income (Canava & Ravn, 1996). The given definition, even though providing the general idea behind the consumption risk sharing, gives a rather limited view of the possibilities for consumption smoothing. Consumption risk sharing has both national and international dimension (Crucini, 1999), yet opening the economy greatly improves the chances for stabilising the consumption path. A given country being a member of the global community can improve it by tightening integration with its partners within a given arrangement. The nature of the arrangement, as well as its depth, will determine the ability of a given country to insure its consumption path. In other words, consumption risk sharing cannot be considered

independently of the stage of integration and its specific institutional arrangements.

Countries are able to engage in consumption risk sharing without signing any international agreements, but their ability to do that effectively is rather limited. Later in this article channels of risk sharing are described, along with the stages of integration that facilitate it. The first stage of economic integration is a free trade agreement or customs union, which enables free movement of goods. International trade is one of the channels for risk sharing (Cole & Obstfeld, 1991), and the principle of its mechanics can be described as follows. When an idiosyncratic negative shock hits a given country, its GDP, along with price levels, starts to decrease. The lower price levels make domestic goods more competitive relative to foreign goods. As a result, imports decline and exports start to increase. This mitigates the impact of the economic shock on GDP and facilitates consumption smoothing.<sup>2</sup>

The second stage of economic integration is economic union, where, in addition to free movement of commodities, the unhampered movement of factors of production is an integral part. Within an economic union two additional channels for international consumption risk sharing are available. The first is the labour movement channel. After a negative idiosyncratic shock, some of the labour force become unemployed. If the other countries within the economic union are experiencing relative prosperity, at least some of the unemployed can relocate to find work somewhere outside the country. In such instance the path of consumption per capita within the country becomes more stable. Eichengreen (1992) showed empirically that labour force migration is responsible for the lion's share of income consumption smoothing for states in the United States and provinces in Canada. The second channel available within an economic

<sup>2</sup> Additionally, international trade contributes to tighter business cycle synchronisation. See Beck (2011, 2013, 2014, 2019a).

union works through capital markets. By buying and selling assets internationally, economic agents can diversify their portfolios. If the portfolios are diversified enough, idiosyncratic shocks are not entirely transferred to consumer income, thus providing consumption smoothing. In other words, with diversified portfolios, disposable income and consumption are no longer perfectly sensitive to changes in domestic income. As domestic incomes fall, the negative effect on consumption is compensated by an increase in the values of assets held abroad. This channel received the most attention in the contemporary economic literature (Lewis, 1996; Fratzscher & Imbs, 2009; Lewis & Liu, 2015). Rangvid et al. (2016) showed that capital market integration has been leading to an improvement in risk sharing, using data from the last 130 years, but Kose et al. (2009) demonstrate that only industrialised countries were beneficiaries. Nevertheless, the degree of risk sharing achieved through the capital market channel is strongly debated. Moreover, authors disaggregate this channel even further. Asdrubali et al. (1996), Asdrubali and Kim (2004), and Poncela et al. (2016) consider two different channels within the financial flows: capital markets and credit channel, and point that they might work as substitutes.

The third stage of economic integration involves the constituting of a monetary union. The creation of currency union leads to the elimination of exchange rate risk and promotes both international trade and capital mobility and financial integration. Without exchange rate risk economic agents can diversify their portfolios more effectively internationally, as one of the major components of overall risk has been eliminated. Effectively, consumption-smoothing possibilities are extended. Similarly, the elimination of exchange rate risk promotes trade (Frankel & Rose, 2002; Rose & Van Wincoop, 2001; Beck, 2017), and improves the effectiveness of trade channel in providing consumption insurance.

Finally, the last stage of integration considered in this paper is fiscal union. Consumption smoothing

in a fiscal union works through either taxation and transfers or benefits. When GDP in one of the countries starts to decrease as a result of negative shocks, tax revenues in that country start to fall and, consequently, the shock is not entirely transferred to income. At the same time transfers (excluding unemployment benefits) in that country start to increase, restricting the fall in disposable income. Both of these mechanisms facilitate consumption smoothing. The European Union has not yet decided on the introduction of fiscal union, even though propositions such as that have been put forward. For instance, back in 2015 Emmanuel Macron claimed that if the idea of fiscal union is not pursued, the entire Eurozone structure runs a risk of being dismantled. After being elected President of France, Macron recently highlighted the need to move in the direction of fiscal federalism to the German chancellor Angela Merkel and stated that he “will undertake deep structural reforms” if Merkel agrees to take “modest steps in the direction of fiscal federalism” (Eichengreen, 2017). At this point in time, the idea seems far-fetched, particularly since Merkel lacks support within her coalition for this initiative. Still, the United States can serve as a great example of the fiscal union. Sala-I-Martin and Sachs (1991) estimated that a one-dollar shock to income in one of the states in the USA triggers a decline in taxes of about 34 cents, and at the same time increases federal transfers by 6 cents. In other words, federal system in the US reduces a one-dollar income shock to a 60 cent decrease in disposable income. Asdrubali et al., (1996) calculated that the federal channel reduces regional shocks by 13%. Even though the EU does not have fiscal federalism in place, Sorensen and Yosha (1998) argue that the federal governments of the individual countries have been quite effective in executive risk sharing through fiscal policy.

## Methodology

In order to assess the degree of risk sharing between European countries first data regarding

real GDP and consumption was collected for 33 countries. The analysis was conducted within the three reference groups. The first group is made up of 14 Intermarium countries: Bulgaria, Bosnia and Herzegovina, Belarus, the Czech Republic, Estonia, Croatia, Hungary, Lithuania, Latvia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia, and Ukraine. Twenty-eight European Union countries constitute the second group. The third group – the EU core – is formed from the countries that were the original 11 Eurozone members, i.e.: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxemburg, Netherlands, Portugal, and Spain. The choice the EU core was dictated by previous research that stressed the importance of it as a reference point (Beck 2019b; Beck and Stanek 2019). The data was collected from Penn World Table (Feenstra et al., 2015) and covers the period between 1991 and 2014, although analysis is performed for three consecutive sub-periods of equal length: 1991–1998, 1999–2006, and 2007–2014.

The data is transformed into the first difference of natural logarithms, so the time series under investigation include the growth rate of real GDP and consumption. Additionally, growth rates of real GDP and consumption are calculated for each of the three reference groups: Intermarium, the EU, and the EU core. Using the aforementioned data, the following equation is estimated:

$$(C_{it} - C_{Rt}) = \alpha + \beta(Y_{it} - Y_{Rt}) + \varepsilon_{it}, \quad (1)$$

where:  $i$  denotes country,  $t$  is time,  $R$  is reference group,  $C_{Rt}$  is growth rate of consumption of country  $i$  at time  $t$ ,  $C_{it}$  is growth rate of consumption in the reference group,  $Y_{it}$  is growth rate of real GDP of country  $i$  at time  $t$ ,  $Y_{Rt}$  is growth rate of real GDP of the reference group, and  $\varepsilon_{it}$  stands for error term. Expression  $(C_{it} - C_{Rt})$  shows by how much the consumption growth rate of a given country at a given time differs from the growth rate of consumption of the reference group. By the same token  $(Y_{it} - Y_{Rt})$  measures by how much the growth rate of real GDP of a given country

in a given year deviates from the growth rate of the reference group. In this setting co-efficient  $\beta$  shows how much of the country specific shock to income is translated to this country consumption.  $\beta$  takes values from 0 to 1, where 1 indicates that the entire shock to income is translated to consumption. On the other hand, if  $\beta$  takes the value of 0, that means that that country's consumption is completely insensitive to changes in income; in other words, the country is able to completely mitigate the effects of the income shock through the risk sharing mechanisms. Accordingly, the measure of risk sharing can be defined as:

$$RS = 1 - \beta, \quad (2)$$

where the value of the measure informs what percentage of the country specific risk can be diversified away, by the mechanism described in section 2. In other words,  $RS$  measures the percentage of the country specific shock that is insured through the mechanisms of risk sharing. A value of 1 would indicate perfect risk sharing, while 0 indicates no risk sharing at all. Taking advantage of the panel structure of the employed data set equation one was estimated using pooled OLS, fixed effects, and random effects estimators. Along with estimation output interval of confidence were calculated, and the Wald test was used to test the hypothesis of  $\beta = 0$  (perfect risk sharing) and  $\beta = 1$  (no risk sharing).

## Results

The descriptive statistics of the time series of real GDP and consumption growth are shown in table 2. The table illustrates the mean value of the growth rate, standard deviation, and co-efficient of variation calculated as the ratio of the standard deviation to mean. There are a couple of points that could be made about the time series at hand. Firstly, GDP growth rate is more volatile than consumption, regardless whether volatility is measured in terms of standard deviation or coefficient of variation. This suggests that risk sharing mechanisms are

Table 2. Descriptive statistics for real GDP and consumption growth rates for Intermarium countries, and the Intermarium and the European Union aggregates for the 1991–2014 period

Country/Group	GDP			Consumption		
	Mean	SD	CV	Mean	SD	CV
Belarus	1.51%	0.113	7.513	3.74%	0.078	2.076
Bosnia and Herzegovina	9.61%	0.165	1.714	6.16%	0.151	2.445
Bulgaria	0.66%	0.084	12.863	1.29%	0.088	6.783
Croatia	1.12%	0.073	6.501	0.82%	0.101	12.394
Czech Republic	1.49%	0.049	3.295	1.94%	0.061	3.162
Estonia	2.58%	0.088	3.395	2.36%	0.097	4.104
Hungary	2.27%	0.037	1.613	2.29%	0.038	1.644
Latvia	0.29%	0.104	35.413	-0.24%	0.160	-67.618
Lithuania	1.93%	0.078	4.049	2.79%	0.080	2.866
Montenegro	1.63%	0.144	8.797	1.72%	0.157	9.177
Poland	4.83%	0.029	0.605	5.38%	0.029	0.539
Romania	3.67%	0.053	1.456	3.61%	0.079	2.195
Serbia	2.09%	0.159	7.619	1.98%	0.156	7.886
Slovakia	1.83%	0.070	3.828	2.34%	0.089	3.817
Slovenia	2.16%	0.044	2.051	1.98%	0.052	2.616
Ukraine	-0.77%	0.106	-13.826	1.65%	0.117	7.094
Intermarium	2.07%	0.043	2.079	2.49%	0.066	2.643
Intermarium and the EU 28	2.48%	0.021	0.831	2.15%	0.025	0.872
The EU 28	2.61%	0.020	0.758	2.47%	0.020	0.813
The EU Core	2.60%	0.021	0.801	2.35%	0.020	0.842
Maximum	9.61%	0.165	35.413	6.16%	0.160	12.394
Minimum	-0.77%	0.029	-13.826	-0.24%	0.029	-67.618
Mean	2.30%	0.081	4.989	2.47%	0.090	0.261
Standard deviation	0.022	0.041	9.233	0.015	0.041	17.234

Source: own calculations.

at work to provide consumption smoothing. Secondly, growth rates of the aggregates, here for Intermarium, the aggregate of Intermarium and the EU, the EU and the EU core, are less volatile than growth rates of the analysed time series for individual countries. The only exception is Poland, which experienced an unprecedentedly stable period of growth over the investigated time span. This illustrates the potential benefits in terms of income and consumption smoothing attainable from participation in economic integration.

Table 3 presents the results of the estimation. Regardless of the utilised method of estimation, the results are very similar. Before the analysis of the  $\beta$  coefficients, a few comments on the results of the tests are due. 0.95 percent levels of confidence include the value of 1 for the Intermarium in the 2007–2014 period for all the methods of estimation. The Wald test, in that case, does not allow for the rejection of the no risk sharing hypothesis. This illustrates that the work of the risk sharing mechanisms between the Intermarium countries

Table 3. Estimation results for Intermarium, EU28 and EU core

Group	Time period	Estimator	$\beta$	Standard error	0.95 Confidence interval			p(Wald test)		R2	Adj. R2	DW
					L	U		H0: $\beta = 1$	H0: $\beta = 0$			
Intermarium	1991–1998	pooled	0.747****	0.053	0.642	0.851	0.000****	0.000****	0.614	0.611	2.225	
		fixed	0.769****	0.068	0.634	0.905	0.001***	0.000****	0.645	0.567	2.363	
	1999–2006	random	0.747****	0.053	0.642	0.851	0.000****	0.000****	0.614	0.611	2.225	
		pooled	0.876****	0.071	0.737	1.016	0.079*	0.000****	0.551	0.547	1.943	
	2007–2014	fixed	0.829****	0.073	0.684	0.973	0.019**	0.000****	0.660	0.584	2.418	
		random	0.852****	0.068	0.717	0.987	0.030**	0.000****	0.553	0.550	2.140	
EU 28	1991–1998	pooled	0.927****	0.077	0.774	1.080	0.343	0.000****	0.532	0.529	1.950	
		fixed	0.935****	0.089	0.758	1.113	0.471	0.000****	0.590	0.499	1.967	
	1999–2006	random	0.927****	0.077	0.774	1.080	0.343	0.000****	0.532	0.529	1.950	
		pooled	0.915****	0.055	0.806	1.023	0.120	0.000****	0.556	0.554	2.169	
	2007–2014	fixed	0.864****	0.069	0.728	1.000	0.049**	0.000****	0.608	0.535	2.225	
		random	0.908****	0.055	0.799	1.016	0.092*	0.000****	0.552	0.550	2.160	
EU core	1991–1998	pooled	0.640****	0.051	0.539	0.742	0.000****	0.000****	0.410	0.408	1.620	
		fixed	0.584****	0.053	0.479	0.690	0.000****	0.000****	0.576	0.497	2.043	
	1999–2006	random	0.626****	0.050	0.527	0.726	0.000****	0.000****	0.410	0.407	1.766	
		pooled	0.641****	0.051	0.540	0.742	0.000****	0.000****	0.412	0.410	2.004	
	2007–2014	fixed	0.609****	0.057	0.496	0.722	0.000****	0.000****	0.515	0.424	2.122	
		random	0.645****	0.051	0.545	0.745	0.000****	0.000****	0.422	0.419	1.984	
EU core	1991–1998	pooled	0.521****	0.068	0.385	0.656	0.000****	0.000****	0.405	0.398	1.938	
		fixed	0.565****	0.080	0.405	0.726	0.000****	0.000****	0.559	0.444	2.124	
	1999–2006	random	0.527****	0.067	0.394	0.660	0.000****	0.000****	0.420	0.413	1.910	
		pooled	0.418****	0.063	0.294	0.543	0.000****	0.000****	0.342	0.334	1.733	
	2007–2014	fixed	0.283***	0.082	0.120	0.446	0.000****	0.001***	0.474	0.337	2.106	
		random	0.417****	0.063	0.293	0.542	0.000****	0.000****	0.340	0.332	1.738	
2007–2014	pooled	0.232***	0.068	0.096	0.368	0.000****	0.000****	0.118	0.107	1.678		
	fixed	0.215***	0.073	0.070	0.360	0.000****	0.003***	0.368	0.203	2.124		
		random	0.214***	0.067	0.081	0.347	0.000****	0.001***	0.106	0.096	1.833	

\*, \*\*, \*\*\*, and \*\*\*\* denotes result statistically significant at 0.1, 0.05, 0.01, and 0.001 level respectively. DW – Durbin-Watson statistic.

Source: own calculations.

was negligible in that period. Additionally, the hypothesis of no risk sharing cannot be rejected for some estimation methods for the Intermarium between 1999 and 2006, as well as for the EU between 1991 and 1998. Nonetheless, in those instances, evidence for negligible risk sharing is less unequivocal. At the other end, for 0.001 significance level, the hypothesis of perfect risk sharing cannot be rejected for the EU core between 2007 and 2014. Still, this is a rather unconventional and far-reaching significance level. For this reason, one can conclude that there is no perfect risk sharing, even between the EU core countries.

To summarise, the results show that the degree of risk sharing in all analysed groups was in between the two extremes. To assess accordingly the degree of risk sharing estimated  $\beta$  co-efficients were utilised to create *RS* measure defined in the formula (2). The values of the measure are shown in table 4. Estimates from pooled OLS were utilised. Yet the obtained results are qualitatively similar regardless of the method of estimation used.

Regarding the first column, in the period between 1991 and 1998 the Intermarium countries were able to insure against 25% of the shock to real GDP. However, in the two following periods the ability to insure against country specific shocks decreased in the 1999–2006 and 2007–2014 periods to 12% and 7%, respectively. The European Union countries were able to insure against 9% of the shocks to their GDP in the 1991–1998 period. Yet in the next two analysed periods, the risk sharing within this group had increased

to 36%. To explain the results, it is important to keep in mind that the Intermarium countries include a group of countries that have joined the EU and the countries that remained outside of that bloc. The Intermarium countries, due to the association with the Soviet Union in the 1990s, still shared strong common ties, which enabled them to share risk. However, as some of those countries joined the European Union, the ties between them and the rest of the Intermarium started collapsing. For those reasons, the degree of risk sharing between the Intermarium countries started declining.

On the other hand, at the beginning of the period the degree of integration between the last 14 European Union members and the rest of the EU was very limited. As the process of integration progressed the countries were able to improve the degree of risk sharing significantly. These results demonstrate that risk sharing goes *pari passu* with integration. An even better demonstration of that point is provided by the case of the EU core countries. Starting from the beginning of the analysed period the degree of risk sharing between them was the highest, as they were able to insure consumption against 48% of idiosyncratic shocks. This high degree of risk sharing should not be surprising, as the EU countries had been participating in European integration for many decades before Intermarium countries even started considering joining the European Community. As the integration progressed, the degree of the risk-sharing went up even further. The year 1999, with the introduction of the common currency and the following commencement of euro zone, opened a period where the core countries were able to insure their consumption paths against 58% of idiosyncratic risk. Finally, in the 2007–2014 period the euro zone countries were able to insure against 77% of country specific shocks. This impressive number is the best testament to the potential of economic integration in promoting risk sharing. Moreover, it demonstrates the power of monetary unions in facilitating consumption smoothing. It is also important to remember that this was accomplished without resorting to fiscal

Table 4. Measures of risk sharing obtained with pooled OLS estimator (in %)

Time period	Intermarium	EU 28	EU Core
1991–1998	25	9	48
1999–2006	12	36	58
2007–2014	7	36	77

Source: own calculation.

union, which suggests that there is still room for improvement.

## Conclusions

This paper has analysed the group of countries that comprise Intermarium from two different perspectives: it has looked into motivations for exploring the idea of Intermarium integration and also assessed the potential economic benefits of that through the prism of consumption risk sharing. In the early 2000s, there was a strong sense of enthusiasm when it came to the EU membership. However, as it has been illustrated, there is enough evidence to suggest that there has been a shift in attitudes towards the EU in CEE. To give a few examples, opinion polls show a lack of trust towards the European Union, as well as less alignment on key policy issues, such as migration. In addition, EU financial aid for both groups has either decreased or is expected to decrease. This, in turn, has shattered the thought of the European Union as the only feasible idea for the post-Communist states, which gave room for exploring alternative ideas, such as Intermarium. However, it is important to note that, from the political science perspective, it is difficult to assess the likelihood of the Intermarium integration, as there is no evidence to indicate that even the most sceptical EU Member States would leave the bloc. At the same time, given the shift in attitudes, the economic benefits of Intermarium are nonetheless worth exploring.

The research undertaken in this article did not concentrate on gains in terms of improved economic growth, which is overwhelmingly explored in the literature, and instead focused on consumption risk sharing. As both existing theoretical models and empirical research demonstrated, ability to ensure the stability of consumption path heavily relies upon the stage of integration attained by the group of countries under investigation. Therefore, an inquiry was conducted for the Intermarium, the EU, and the EU core. At the outset the results showed that aggregates are characterised by the lower

volatility of both consumption and real GDP growth, signifying advantages associated with membership in supranational organisations. Moreover, as the volatility of consumption is lower in comparison with GDP growth at a country level, there is evidence of risk sharing mechanisms working even in preliminary data analysis. The main part of the research showed how the degree of consumption risk sharing was evolving from period to period in the groups under scrutiny. The results showed that risk sharing between Intermarium countries was steadily declining, while at the same time it increased among European Union Member States. This outcome can be attributed to the fact that Intermarium includes both the EU and non-EU member states. At the beginning of the analysed period Intermarium countries were through common post-communist ties able to insure against 25% of idiosyncratic shocks to national GDP. However, as some of the Intermarium countries joined the EU the ties with rest started to loosen. Consequently, the decrease in Intermarium risk sharing was accompanied by development of the European Union risk sharing along the described stages of integration. At the same time, the EU core countries were characterised by the highest degree of consumption insurance at the beginning of the sample period and were able to increase it tremendously, with 77% of shocks to national income being absorbed through the mechanisms of risk-sharing. This impressive result can be traced to the introduction of the common currency and concomitant financial market integration. Even this result could be improved upon if the EU core moved on to another stage and decided to form a fiscal union.

To sum up, the results show that ongoing European integration relaxed the ties between the Intermarium countries and deteriorated, almost completely, their mechanisms of international consumption insurance. This decline was accompanied by an increase in risk sharing between the old and new member states of the European Union. As demonstrated by the example of the EU core, the scope of benefits in terms of risk

sharing that could be gained through engagement in consequent stages of integration is tremendous. Nevertheless, in the light of the results presented in this paper, integration in the Intermarium bloc would be associated mostly with costs on the side of the countries that are already part of the EU. Leaving the EU would be associated with a sharp decline in risk sharing with those countries, and the time span to achieve comparable results with the rest of Intermarium countries would be rather extensive. Withdrawing from the EU would be a step away from developing mechanisms of international consumption insurance and a move to an uncertain future within the Intermarium bloc. The most rational choice, motivated on both theoretical and empirical grounds, would entail non-EU Intermarium countries joining the European Union. With increased possibilities to insure against idiosyncratic shocks, the benefits of ongoing integration would be reaped by both the existing and new members of the European Union.

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Andrzej Szromnik

## Cultural heritage objects on the market: Features, conditions and functioning concepts

### Abstract

*Objectives:* The purpose of this paper is to present the conditions and possibilities of market reorientation of cultural heritage objects with respect to all the features of such objects including, inter alia, the historical, artistic and emotional values, forms of ownership, functions and previous market position. The author presents the main determinants and forms of “opening” the historical objects (antique properties) for existing and new markets through developing and widening the offering of services.

*Research Design & Methods:* This paper introduces a concept and a model that rely on the author’s original vision of diagnosing, shaping and implementing market restructuring for cultural heritage objects. From the methodological point of view the theoretical concepts of illustrating the gradual expansion of market relations between historical objects and their stakeholders rely on theoretical concepts of market, market economy, entrepreneurship and marketing management of NGO’s.

*Findings:* In market economy all organizations are included, at least to some extent, in a network of relationships and dependencies specific for the market and for the processes of exchanging values between partners. This also applies to the cultural sector and, within it, to various cultural heritage objects. The gradual reduction of financing of these objects by the State or regional budgets force the management of cultural objects to accept and apply a new functional philosophy – a philosophy of gradual expansion of its own market and increasing of additional financial revenues generated on this market.

*Implications / Recommendations:* The author does not question the supreme, social and civilizing role of many historic buildings, but he also claims that orientation for additional market resources should be treated and perceived as recommended and even necessary.

*Contribution / Value Added:* In the paper the process of market reorientation of cultural heritage objects has been introduced as a continuum – as a cycle of systematic changes, starting initially from traditional orientation for preservation and conservation and ending on the appropriate and final orientation for the market.

*Article classification:* theoretical article, conceptual article

*Keywords:* cultural heritage, market of cultural products and services, historical objects, historical buildings, economics of culture, marketing of culture, cultural tourism, non-profit marketing, market orientation, marketing of cultural heritage objects

*JEL classification:* H300, H440, L300, M380

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## Introduction

In the “broadening and deepening” concept of marketing formulated about 50 years ago by Kotler and Levy one can find an announcement of its constant, systematic development, adequate to the changes on the market, its entities, objects and network of market relationships connecting them in consistent structural and functional system (see Kotler & Levy, 1969; Kotler, 1972). In this vision evolution of marketing, such important sector areas of modern marketing such as service marketing, ideas marketing, marketing of places and real estate marketing, were shaped and distinguished. Generally speaking, it expressed in clear shifting of the field of interest of the marketing system of thinking and acting on the areas of intangible goods and non-commercial activity of individuals and social groups (see Kotler, 2013; Parsons, 2008; Sargeant, 2004). In the result, the process of marketing values exchange started to involve entities and their omitted and eliminated traditional offers, contributing thereby to significant enrichment of marketing itself and to market interpretation of the development mechanisms of new fields.

An important feature of the processes of broadening the field of marketing interests was concentration on the sphere of the needs and desires of a person and the group of goods which satisfy them. In this way, a relatively well-known market satisfying the physiological needs of individuals and appropriate processes of recognising, shaping or limiting them was completed with analogous processes relating to the needs of higher level, the needs of mental experiences, the needs of development and self-realisation. Simultaneously, the marketing approach in shaping and offering values was used with reference to benefits meeting the requirements of a modern market only to some extent – “quasi” market offers, offers provided to the public by public institutions.

The services of the cultural sector, in all their generic, functional and market diversity, have a special place among public offers. Their essence is expressed by experiences, feelings, emotions

and spiritual experiences accompanying and caused by people, objects, images or sounds, melodies and words deliberately prepared, arranged and made available to the public. Participation in relevant, cultural events, which have permanent or periodic character, is a confirmation of the market attractiveness of the offer, its programme accuracy and compatibility with the social needs, current preferences and expectations of the customers.

The considerations included in the elaboration concern a unique group of institutions, running businesses within widely understood culture, i.e. institutions, which perform various functions based on their location in historic buildings and in close connection with their unrepeatable, unique character. Such objects, or rather their architectural and environmental complexes, due to their material and symbolic values, were to be defined by the term of cultural heritage objects (*heritage sites*), emphasizing their importance and role in preserving the “past” achievements – the ones especially protected by public authorities.

Giving up, at this point, even from an attempt to completely define the “cultural heritage” or “a cultural heritage object”, the exhaustive terminological terminology of Murzyn-Kupisz deserves recommendation to those who are interested. In her pioneering monograph “Cultural Heritage and local development” (published by UEK in 2012) she cited different points of view, approaches and only distinguishing features of this conceptual theory, including numerous definitions suggested by authors from other countries and relevant possessions that are in legal acts (The Venice Charter, 1964; the UNESCO Convention, the Hague, 1954; the UNESCO Convention, Paris, 2003).

Difficulties connected to defining a universal definition of “cultural heritage”, also including objects, resulted in that relatively general term being adopted for the purposes of the elaboration. It enables one to consider a wide circle of “immovable-building souvenirs from the past”, institutions regarded as deserving of preservation for individuals from present and future generations

reflecting the past and traditions of their ancestors regardless of the formalisation of their status at the international, national or regional level. This conceptual approach therefore leads to the contractual treatment of cultural heritage objects as historic building real properties – historic architectural complexes, in all their artistic, functional, technical and proprietary diversity (see Szmygin, 2007; Murzyn & Purchla, 2007).

### **The market in the activity of cultural heritage objects – a review of the literature**

The main stream of the considerations in this article are connected to the marketing approach of the functioning of cultural heritage objects, therefore with possibilities and conditions of using marketing in the realisation of current and prospective objectives of their activity in a specific social, economic, legal and natural environment. The marketing concept of managing this specific cultural resource in an institution, which has a unique mission in society, derives from the field of the economics of culture, the economics of cultural goods, also called the economics of cultural heritage. Accordingly, historic objects are treated on the contemporary market of goods and services as units oriented in specific scope for profit, for generating incomes and surpluses, which allow them to recoup part of their operating costs (see Throsby, 2010; Murzyn–Kupisz, 2010; Towse, 2011; Jung (ed.), 2011, Ilczuk, 2012; Barański, 2016; Murzyn–Kupisz, 2016; Kopeć, 2016).

Indicating the purposefulness of the market restructuring of activities of cultural heritage objects, the need to change their organisational and functional concept, and consequently the reorientation of the programs they offer, is not a new approach. The authors of many scientific publications referred to marketing and certain marketing strategies in historic building activity. They indicated and defined, adequately to specific features, positions and resources of these entities; the works by Thornburn (1986),

Dominquez (1986) and Herbert et al, (1989) deserve particular attention.

In Polish marketing literature, the first works devoted to marketing in the culture sector were the works of the Wrocław authors deriving from the previous Economic Academy (currently UE), i.e. monographs edited by Knecht and Styś (1990) and edited by Mazurek–Łopacińska (Wrocław 1997). The book by Sobocińska (Wrocław 2015) can also be included to the Wrocław current. Marketing, in relation to the functioning and management of cultural institutions, has been the subject of monographs written by many other Polish authors, including Niemczyk (2007), Wróblewski (2012), Łodziana-Grabowska and Wiktor (ed. 2014). This group of publications also includes the monograph written by foreign authors and translated into Polish Dragičević–Šečić and Stojković (2010). The cultural sector and its subjective structure, functional features and potential marketing strategies were treated in a subjective way by all the afore-mentioned authors in their publications. They concentrated on such cultural institutions as theatres, operas, cinemas, philharmonics, cultural centres and exhibition galleries. A few cases and practical references included cultural heritage objects as a whole market, as an integrated offering concept of movable and immovable cultural property, along with relevant special events, and involved creators, artists, designers (see Smoleń 2013). Parowicz (2019) had a different point of view in her monograph: she considered the marketing of cultural heritage on the grounds of the conservation services market.

Cultural heritage objects, historical, architectural and environmental complexes, as well as single, most valuable historic properties, have not been the subject of complex conceptual considerations and relevant project works which discuss their marketing strategies in a systematic and complete way, together with appropriate instruments and market simulation techniques. These objects were usually perceived as cultural tourism centres, so their marketing approach concerned tourist

services – product concepts, the structures of price instruments, promotion of the services and ways of their distribution – offerings for target markets. A tourist point of view in marketing considerations is visible in the works by Chhabra (2010), Fullerton et al. (2010), and McComley and Glimore (2015).

The functional approach, appropriate for the consideration of historic building activity through the prism of a narrowly understood leading function is a characteristic feature of many monographs in the field of marketing of cultural heritage objects. Their authors consider such objects as museum facilities. In this way, the market activity thereof is reduced to the paid provision of museum services. Without questioning the legitimacy and the needs to perceive a museum as a specific “enterprise” or more generally a “market subject”, an equals sign cannot be put between the marketing of cultural heritage objects and museum marketing. This is due to the obvious fact that not every museum is a museum of historical interiors, many of them are located in modern real properties, properties that do not meet the condition of “historicity”. Historic character and historical values have movable objects presented in them and made available to the public. Despite this limitation, the monographs devoted to “museum heritage” and services connected with it deserve attention (see Kowalczyk, 1995; McLean, 1997; Simm, 2006; Matt, 2006; Kotler et al., 2008; Montemaggi & Severino, 2007; French & Runyard, 2011).

Misiuna (2006) presented the extensive approach to “heritage marketing” in his unique monograph. He explained and developed the marketing concept of functioning of the “heritage industry” on 280 pages of text. He discussed, inter alia, such issues as the essence of heritage marketing, market segmentation, the concept of marketing-mix (in relation to the tourist services, the food and beverages market) and preparation of marketing campaigns. Despite the lack of direct reference to the marketing strategies of cultural heritage objects, the work of Misiuna deserves high assessment and recognition for the book’s position in the field of marketing literature.

Marketing of cultural heritage objects is, in many cases, considered in close connection with “Place marketing”: territorial marketing, also called in national literature “city and region marketing” or “location marketing”. This can be seen in the works of Karmowska (2002) and Napolitano and De Nisco (2017), but also, or perhaps first and foremost, the third International Caribbean Conference “Heritage – Tourism and Hospitality” (2014), at which Govers gave an introductory speech entitled “The Role of Heritage in Place Marketing and Branding”.

Apart from numerous domestic and foreign publications, the problems of marketing of cultural heritage objects can be seen in targeted didactic projects. “Marketing of Heritage sites” lectures, among others by Conderello (2015) as part of the European project “Lifelong Learning Program” an HISA course (Heritage Interpretation for Senior Audiences, Italy). It should also be emphasised that this issue has been included in the postgraduate studies project under the title “Academy of Heritage” initiated and successfully carried out in Krakow by the International Cultural Center and the Małopolska School of Public Administration of the UEK.

### **Cultural heritage: Preliminary systematics**

The economic point of view adopted in this elaboration on the functioning of cultural heritage objects in the conditions of market economy requires the acceptance of specific systems of the division of these objects. Only then will the transparency and logic of the argument, referring to specific cases, individuals or groups, be guaranteed. The variety of cultural heritage objects, their mutual significant diversity, in connection to the constantly expanding conceptual area generating further groups of objects qualified to the historical heritage of man, make the right area of interest more and more complex and extensive. And so, apart from traditional components included in the cultural heritage, more and more often such relatively new, independent parts are

taken into consideration as natural, archaeological or architectural heritage, abstracting from new, introduced spheres of immaterial cultural heritage (musical, religious heritage, culinary heritage, technological heritage and others).

The organisation of the components of the “cultural heritage” category is based on the initial, basic, object-functional distinction among objects with mutual, hierarchical order. And so, as an initial classification set a wide set of elements was adopted under the name of “historical effects of human activity” and thus, a set enabling one to separate, within its frames, smaller and smaller components in the following order:

- a subset under the name “historic buildings”, and then
- cultural heritage objects;
- material objects of cultural heritage;
- real estate objects of cultural heritage;
- building objects of cultural heritage.

In this way, a six-element structure of the hierarchical division of the whole set preserved, historical human works, in which a subset of the lower order is a component of a subset of a higher order, was suggested. In all the systematics, the main place is occupied by a group of objects classified as cultural heritage

in the strict sense, as opposed to a broad conceptual notion corresponding to the category of “historical objects” and, even more generally, historical human works (the effects of their activity in the past, fixed, preserved, being the subject of generational transmission).

Separating the material cultural heritage, deliberately outside the suggested division, a wide and internally complex of objects belonging to the immaterial heritage, was left. Similarly, in the case of separating built cultural heritage objects, properties and the land were omitted, which may also be a separate, important class of cultural heritage objects (housing studios, conspiratorial premises, as well as battlefields, cemeteries, fortifications, hill forts (settlements), archeological excavations, etc).

A building, i.e. a cubature construction object permanently connected with the land, qualifying to the group of monuments of special value and importance for society, its historical identity, tradition and material culture, can take various technical and functional forms (architectural, urban). From this point of view, a distinction can be made according to the given criterion:

- a single building, a cultural heritage object with a specific utility function (current or original);

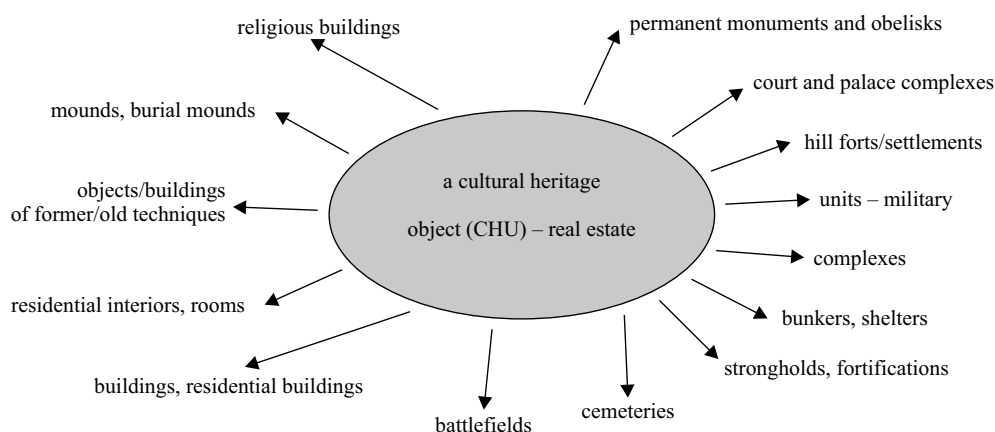


Figure 1. The main types of immovable objects of cultural heritage

Source: own study.

- a complex of historic buildings with homogeneous (two or several objects);
- a complex of historic buildings with various functions;
- a location complex, i.e. a group of historic buildings, structures, elements of small architecture and natural monuments.

The economic significance and market position of a cultural heritage object, depend, to a large extent, on two technical and constructional features, i.e.:

- the condition of the utility spaces of the building (open space, that is non-covered, which means ruins or usable closed space, i.e. what is known as a cubature object);

- the object’s mobility, corresponding to the division on the immovable cultural objects (buildings) and movable objects (objects, movable things).

The division of cultural heritage objects into “objects in the state of a ruin” and “cubature objects” is not a separable division (bipartite, dichotomous). It has been accepted as a certain simplified, existing state, although it is understandable that “ruin” can mean different technical states of a building, and thus from a complete ruin to a partial ruin. At the same time, many objects in the state of a ruin are the ones with small degree of structural degradation and can conditionally be included with cubature objects.

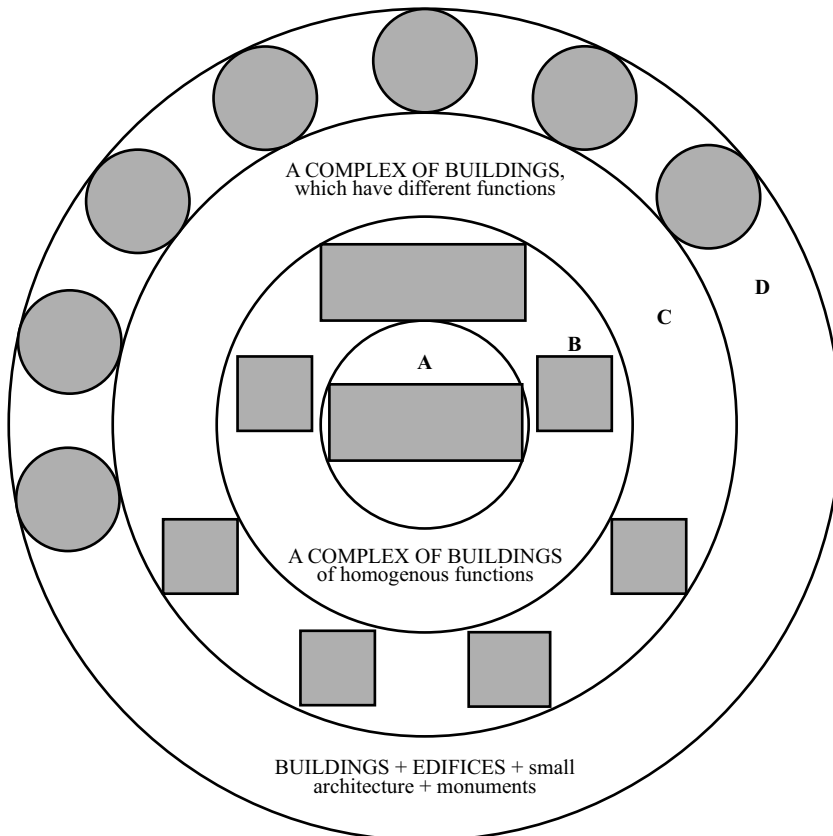


Figure 2. The groups of cultural heritage objects (properties) acc. to diverse architectural and functional features

Source: own study.



The full, complex characterisation of a selected immovable, building cultural heritage object should include the whole set of individual characteristics, that have opposite character, thanks to which subsets of completely and uniquely opposites can be created. Therefore, eight separate characteristics were proposed in order to arrange the analyzed objects in detail. They reflect respectively:

- ownership of the structure;
- technical condition of the structure;
- functional purpose and its changes;
- location;
- current utilisation status (use);
- scope of conservation protection;
- the degree of originality of the architectural design;
- scope of currently performed functions.

The use of the above mentioned features for the full identification of the object (in contrast to basic identification) would require additional consideration of at least a few more characteristics, including, among others, the object's artistic value, its equipment/furnishings, the state of preservation of the park/natural surroundings, the media's recognition of the object and the degree of market "opening" of the object. These enumerated characteristics no longer express the state, legal, technical or territorial situation, but the active role and market potential.

The large number and diversity of the cited identification features of the cultural heritage object do not contradict the original, initial characteristics and appropriate concepts. In this case, the importance, significance and social impact of the historic object depends on its artistic value, historical value and emotional value. If the artistic value (a creator, style, form, architecture, technology, materials, equipment/additions) of the object does not raise any objections and above all depends on the uniqueness of the features mentioned, their individuality and exceptional quality, apart from the historical value expressing the age of the object or its relative time creation, most difficult of all is undoubtedly defining and closer characterisation of emotional value.

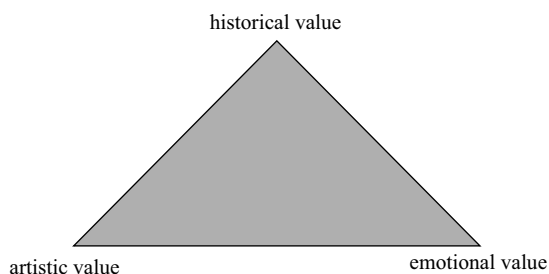


Figure 3. Historic building – real estate

Source: own study.

The "emotional value" category – a category that values cultural heritage objects and places them on a specific scale of "social feelings" – expresses the state of human emotions, opinions and references about assessments that are related to and concern a specific cultural heritage object. These sentiments are based on both formal and informal, purposeful and additional educational projects, and also media coverage and intra-community environmental messages. They generate widely understood historical awareness, shape social relations and opinions about specific objects in the country, region and one's own town. Such messages include "facts and figures" concerning people and events connected to a given object, its past, creators, users, and important development stages as well as stories and legends. The emotional value of a cultural heritage object is the highest in case of these units that define national, ethnic and group identity (see Figure 3).

### **A cultural heritage object as an entity of the market**

The market essence is the connection of various entities – people and organisations – buying and selling relations. These relations, i.e. market relations, form a complex network that combines various entities and market objects. Connections of entities – sellers and buyers – have the character of horizontal links, because they combine with each other buying and selling transactions equivalent and

equal entities representing the demand (a buyer) and the supply (a seller).

In developed market conditions there are various entities as sellers (bidders) or buyers, for which specific material goods or services are necessary for their operation, and which can be bought, primarily through purchases. These are both organisations and natural people running commercial activities, but also organisations – non-profit institutions fulfilling social (non-profit) purposes. At this point, the obvious question arises: whether cultural heritage objects, limited to historic building properties, are market entities, and if so, what are the necessary conditions which they must meet. It is understandable that these objects in all their diversity (previously signalled) are significantly different from each other, primarily in scope, organisation and operating conditions.

The answer to the formulated main question and the relevant conceptual issue concern the recognition of a cultural heritage object as a separate and independent organisation – an institution. Only a specific team of people with intellectual, material and financial resources is able to implement their own statutory use of a set of objectives. The cultural heritage object, as an institution, runs a socially useful activity for its own use and in its own name. It is also based on its own resources. In order to do this, it purchases necessary development factors (mainly service-providing ones) on full market conditions. At the same time, it offers (to interested entities), on a commercial basis, the effects of its own activity and possibilities potentially connected to it.

According to the presented statement, a cultural heritage object, as an entity of the market, should be an institution that ought to be characterised by:

- legal and proprietary distinction (be a self-reliant, independent, registered ownership entity with legal capacity);
- economic distinction (have its own resources that can be freely used by selling them or buying the new ones; if other regulations do not limit it, it can also take loans, regulate its commitments, liabilities and receivables);

- organisational separation (have a specific object management structure, internal organisational structure, precise organisational subordination, approved organisational statute);
- territorial distinction (have a seat of an institution, have strictly designated boundaries within the territory of its own building premises and land properties, including leased, usable and supervised real estate).

It is possible to talk about full decision-making independence of a cultural heritage object if all of the above-mentioned conditions are satisfied. In practice, it is difficult to find cases of such institutions. As a rule, this results from the complexity, ambiguity or imprecision of ownership relations and what comes after that, also organisational relations, as well as the sources and forms of financing the activities. As a consequence, many historic buildings, including cultural heritage objects, have only limited market independence and appropriate buying-selling decisions are made with the participation of many entities from the market environment of the object. Such restrictions, extending management and decision-making processes, make cultural heritage objects only “defective” market entities.

### **Ownership – a nodal feature of cultural heritage objects**

Among the listed, basic characteristics of cultural heritage objects as institutions, undoubtedly the primary feature is ownership – ownership of the object. Ownership is a feature that projects and determines other organisational and functional as well as economic and financial characteristics (see Figure 4).

From the point of view of ownership, the main and the most important group of cultural heritage objects are entities owned by the State Treasury. These include the largest, best-known and commonly recognised objects as national goods. They are mainly used by public institutions, above all, for civilisational, cultural, partly educational and expositional aims. They are financed and

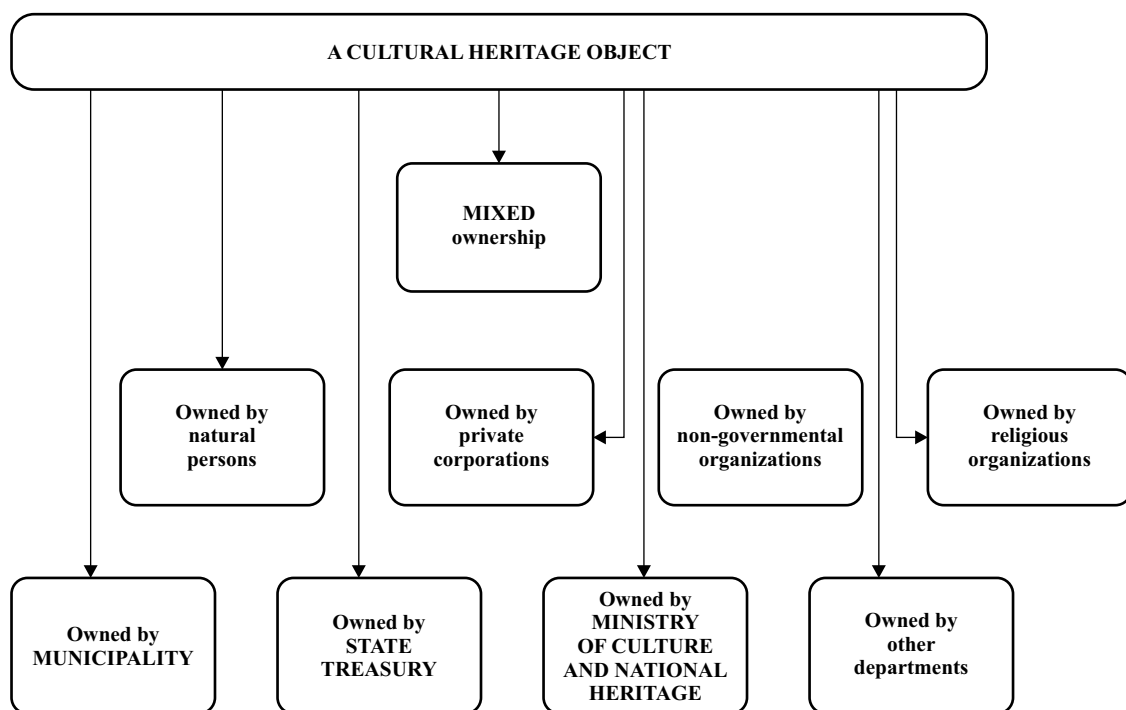


Figure 4. The main owners of cultural heritage objects

Source: own study.

developed thanks to funds from the State Treasury distributed by the Ministry of Culture and National Heritage.

A sizeable group of historic buildings with high cultural values is made up by objects directly owned by the Ministry of Culture and National Heritage. As a “central” property, as well as the previously characterized group of objects, they remain outside the regional and local authorities. At this point it should be mentioned that there is an additional group of public facilities, resort buildings, which are owned by other ministries with all organisational, functional and financial consequences.

The largest group of historic buildings with limited artistic, historical and emotional values is directly or indirectly managed by local governments on a municipal, district or voivodeship level. These are thousands of various usable and unused facilities, which are often doomed to local authorities, are

in a poor technical condition, and with no prospects for future changes.

The private sector is a dynamically developing property sector among objects of cultural heritage. It mainly includes the ownership of natural persons and private corporations, including foreign entities. Apart from the examples of negative use of historic buildings by private owners, it should be emphasised that from the market point of view it is the most developmental group of objects.

Among the owners, and at the same time users of cultural heritage objects, it is impossible to omit social organisations, including organisations and religious associations. They belong to the most numerous, permanent, often primitive (long-term) owners – users of monasteries, churches, chapels, eastern orthodox churches and religious complexes. The vast majority of them are in a satisfactory technical and maintenance condition.

According to the applicable legal articles regulating the purchase or sale of a historic real estate, the acquisition of ownership of a cultural heritage object takes place through a notary contract, but the price does not always reflect the market value of the object, in many cases it is only symbolic. In selected cases, the change of ownership as the result of the sale of an object is limited/conditional, because it depends on the consent of the Ministry of Culture and conservation services.

Concluding the remarks about the properties of cultural heritage objects and major entities in this respect, it should be noted that many objects do not have valid, credible and unambiguous certificates of ownership. A large number of historic buildings are the subject of reprivatization and compensation claims. Such situations limit their market position as sale-purchase transaction entities. Using and possessing an object also does not give full rights to the owner, including privileges and obligations associated with it.

**A cultural heritage object on the industry markets for goods and services**

The market-based character of cultural heritage object activity means that it provides its mobile and immovable resources for a payment, at the same time providing adequate services. Payment for services is tantamount to establishing commercial relations with recipients, clients of the facility. The most frequently offered paid services can include:

- visiting the whole interior of a building;
- visiting part of a building`s interior;
- visiting the area surrounding a building;
- providing mobile equipment (selected exhibits);
- visiting exhibitions, permanent and temporary ones;
- participation in artistic events (event organising);
- hiring rooms for one`s own events;
- hiring the whole object or a part of it (lease or short-term rental);

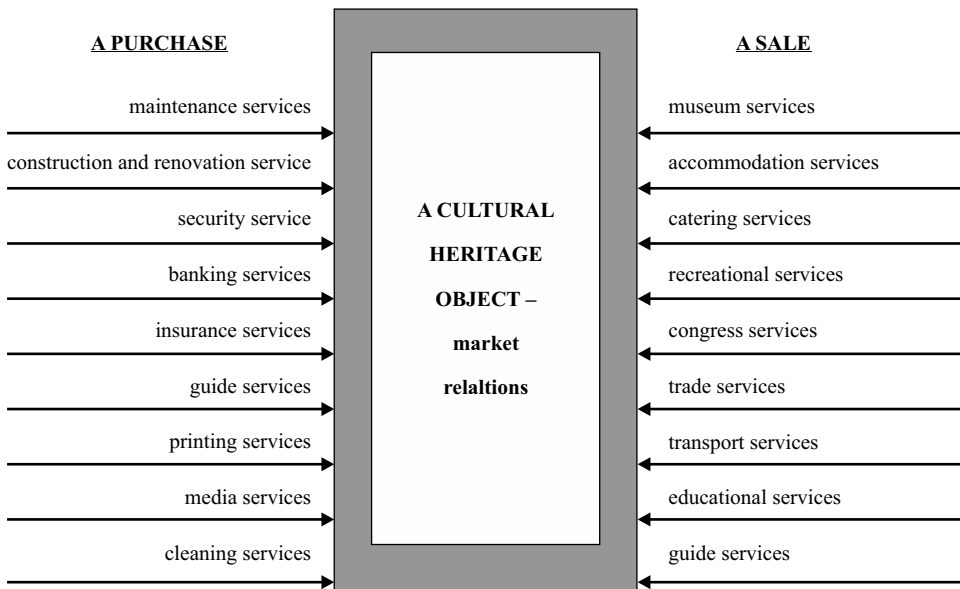


Figure 5. A cultural heritage object as an entity of the service market

Source: own study.

- catering services;
- comprehensive hotel services;
- training services (talks, workshops, training, conferences);
- film services;
- transport services;
- guide services.

Paid services shape the circle of recipients, i.e. the market for a given facility, thus the basic parameter enabling the measurement of the scope of this market (in this case it is tantamount to the number of individual and institutional clients served). The size of the market – the other market parameter – expresses the total size (value) of services provided.

Each cultural heritage object has two roles on the market, i.e. as a provider (a supplier of material goods and services) as well as a buyer (a recipient of purchased goods and services necessary to run a business – implementations of the statutory functions of the facility).

And thus it acquires a variety of goods and services for a payment. In the second of those (the object is a buyer of services) it is mainly about maintenance, construction and renovation, security, banking, insurance, guided tours (external), printing, cleaning and media services (probably the list of these services is much wider).

The dominating, in the market orientation of cultural heritage orientation, role of the service market does not mean that these specific entities do not appear in the roles of sellers or buyers in other industry markets. Historic buildings are important “players” in the cultural tourism market, which results from the essence of their activity. Many of such facilities are active entities on the market of articles and works of art, making complementary purchases that enrich their own resources of exhibits. Owners/managers of cultural heritage objects are also active on other markets, such as labour market, real estate market and broadly understood media market (see Figure 6).

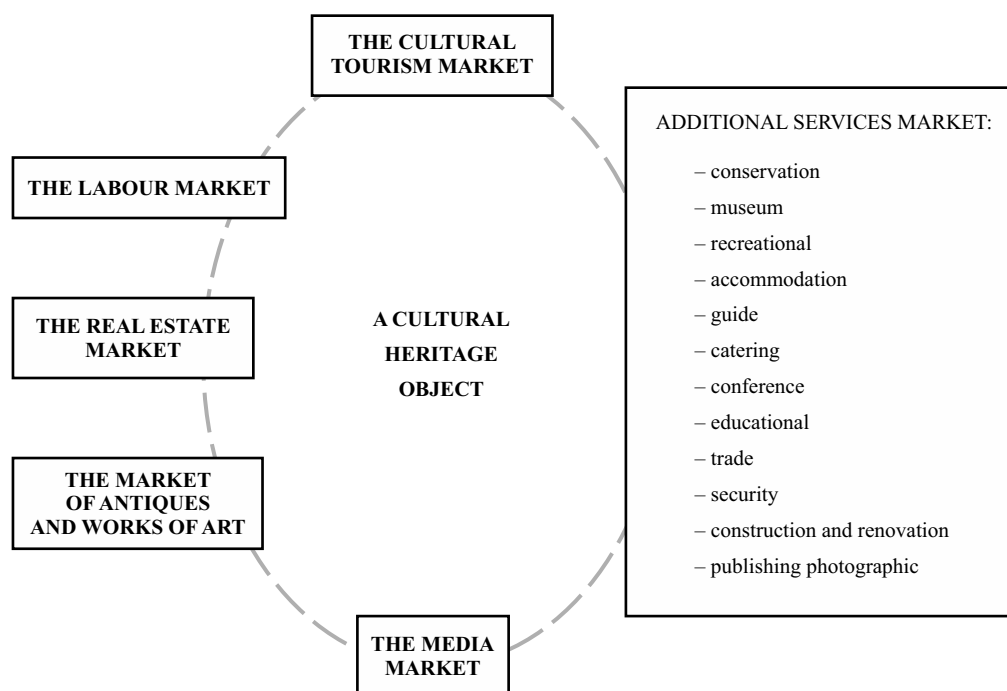


Figure 6. Cultural heritage objects on industry markets

Source: own study.

The observation that cultural heritage objects under certain circumstances operate as market entities is fairly general. Making a purchase or selling your own resources can take various institutional forms and different solutions, depending on the detailed characteristics of the market transactions involved.

In general, it can be assumed, for the purposes of further, in-depth classification of market forms, appropriate for cultural heritage objects, that market transactions involving historical objects concern, on the one hand, movable and immovable items, and, on the other hand, from another point of view, such separate types of market transactions, which are “sales” and only “presentation”. Thanks to the introduced distinctions, by connecting the two given divisions, four organisational and legal forms and functional markets can be distinguished, i.e.: antiques trade (offering moveable antique objects for sale or buying them from other market entities);

- istic real estate trade (paid offering or buying historical properties);
- museum exhibitions (displaying paid presentation of antique, moveable items connected with visiting places where they are made available);
- isiting historic interiors, interior museums (paid display/presentation of historic interiors, most often connected with a guide service).

Using the applied matrix (tabular) approach, a more detailed and illustrative division of institutional markets, appropriate for cultural heritage objects, was made (see Figure 7).

A similar method of two-criteria division of markets relevant to historic buildings, both movable and immovable, was used for a more advanced systematisation of forms of market exchange based on slightly different criteria, i.e.:

- the historical value of the market transaction object;
- the form of transaction making the subject available on the market.

In this case, three-stage states of the given criterion were used (for both features), as a result

of which nine different solutions – forms of market transactions and appropriate institutional and functional solutions – were obtained. Therefore, in relation to the first criterion, the “historical value” was distinguished, small, medium and large states, and for the criterion of “form of transaction – a form of paid access” presentation, loan and sale states (see Figure 8).

The 3x3 table identifies nine forms of markets (three criteria, with three states). It is worth commenting on the two extreme cases of markets. In the first case it is the presentation market – displaying and paying for watching objects with a relatively small historical value (often private or communal collections, collections shared in local and regional museums or memorial rooms) and on the “sales market”, on which the antique goods of great historical value are offered. In the latter case, the purchasing and selling transactions are concluded on special terms. Often there are limits on what individuals or institutions can buy, or what can be taken out of the country. Finally, priority of purchase may be granted to certain specialized public institutions (museums).

Another case of the systematics of specialised markets with various leading functions is analogical to the previous method of the two-criteria classification of historic buildings, the case of division of market functions (carried out against payment, often outsourced) according to the criterion (see Figure 9):

		Object mobility	
		Moveable	Immovable
The way of	Sharing	Antiques trade – shops, galleries, auctions	Historic real estate trade (CHU – Cultural Heritage Objects)
	Presentation	Museum exhibitions, shows, collections	Open antique objects – interior museums

Figure 7. Basic division of the market of antique objects, according to their character, forms of making them available to the clients

Source: own study.

		Historical value		
		Small	Medium	Large
The form of market sharing	Presentation	Private collections, local, regional museums and exhibitions	Regional, museum exhibitions, professional collections and private collections	Professional, open exhibitions by public museums
	Lease/hire	Market sharing in an unlimited (short- and long-term) offer	Conditional sharing for public institutions of culture and art	Limited, unique, short-term sharing for artistic purposes
	Sale	Antiquarian trade offer and direct, non-institutional exchange	Trade offer of specialized auction and real estate companies	Limited sales – an exchange within the public sector

Figure 8. Extended division of the market of cultural heritage objects (historic buildings)

Source: own study.

- type of cultural heritage object, with a detailed identification of “moveable” and “immoveable” objects;
- technical condition of the facility, with the distinction of “good” and “bad” state.

The result of the combination of these two criteria and the two conditions of occurrence of the respective feature, taken into consideration every time, is another table with dimensions

of 2x2 and the appropriate four sets of market functions (market transactions). These are the objects:

- immoveable in good technical condition;
- immoveable in bad technical condition;
- moveable in good technical condition;
- moveable in bad technical condition.

The offered sets of functions – market transactions (usually done against payment or with financial

		Material objects of cultural heritage	
		Immoveable	Moveable
Accessed March 10, 2018	Good	Enrich Present Share Lease Sell equivalents Sell non-equivalents	Maintain Present Lend/borrow Exchange Sell equivalents
Technical condition	Bad	Protect Present Share Lease Sell equivalents Sell non-equivalents Give	Maintain Present Lend/borrow Exchange Sell Give

Figure 9. Division of market transactions for material cultural heritage objects according to their type and technical condition

Source: own study.

compensation) include ordered lists of activities differentiated to essence but also to their market-financial character and potential benefits of their implementation.

### **Market orientation of cultural heritage objects**

Acceptance of the thesis about the market nature of cultural heritage objects, in this case buildings, is synonymous with the recognition of these objects as important, active entities on many industry markets. Therefore, it can be assumed that the market orientation of historic buildings with recognised cultural values is their new strategic option – an option that does not replace the leading conservational, civilisational or educational priority, but is a special supplement to them. This special role of the market option is based on the integration of all strategic goals set by the society and its authorities managing cultural heritage objects.

The market orientation of cultural heritage objects means in fact, in the reality of the market economy, approbation and full acceptance of including to the criteria set and areas assessing the results of activity of these sales measure objects, and in fact the measure of income from the sale of offers/products. Traditionally, the leading and even exclusive socio-civilization goals are developed, completed or corrected by market objectives. The functioning of cultural heritage objects will become an offering function, and external offers of participation, sightseeing or organisation of an event will be specific products prepared consciously and purposely for the needs and desires of potential recipients (interested entities or people).

New, appropriate for the market concept of the functioning of independent historic buildings, such as profitability, efficiency, financial liquidity, investment return time and other economic and financial categories, will be included to the terminology and issues traditionally accompanying conservation and socio-civilization missions.

The process of conceptual restructuring of the activity of leading historic objects can be defined as shifting from the protection-conservation orientation and its proper social and civilisation priorities to strictly market orientation, assuming the priority of rationally satisfied needs and desires of clients.

There are no contradictions between these orientations and the conflicts of goals and tasks. Unquestionable changes should be made in the traditional “know-how” of the institutions management managing major historic objects and their new role – the role of cultural managers, managers able to overcome new market challenges and even use them as development opportunities (see Figure 10).

Smooth transition to the market orientation of cultural heritage objects may consist in a modernized, developed and updated continuation. Typical and repeatable permanent exhibitions, although in many cases still attractive to visitors, should be complemented and extended by developing the area and object range of the exhibition (simple development) or adding new utility services – various, accompanying or “free” of charge services (independent of the basic exhibition). In this way, the function and the traditional operating area under the name “sightseeing” will change its market character – the passive function will be expanded to active participation in special ventures. These are usually additional services, ordered events, “custom-made” exhibitions, stage productions, shows and other events. The range of benefits (satisfaction) offered to visitors will be significantly increased and made more attractive. It probably will not remain without additional sales effect / income stream.

The vision of new priorities, objectives and tasks will usually encounter resistance, and the main argument in criticising the new orientation of cultural heritage objects will be a well-known phrase about the superiority of protection-conservation and socio-civilisation goals over ad hoc and “base” commercial purposes.

The basic assumption in the market reorientation of cultural heritage objects concerns the necessary



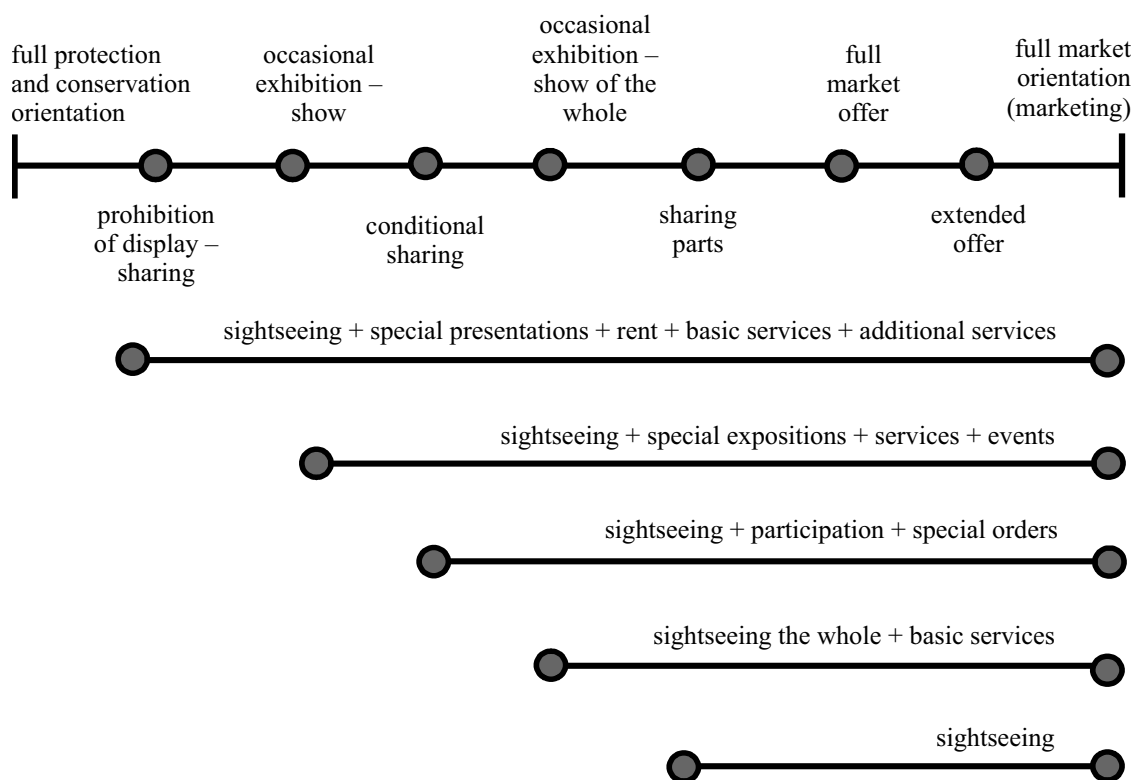


Figure 10. From protection-conservation orientation to market orientation

Source: own study.

protection of the object's assets, protection at all costs, protection, which has priority over other strategic goals. This is an element of the mission of the appropriate institution. The market "opening" of objects must take place gradually, and an appropriate process will always require proper adequate preliminary preparation, observation of the results and current monitoring of the effects.

"Opening" of historic buildings as independent market entities, that is their gradual commercialization through paid offering and providing free resources, can be brought down to several main stages, which can be listed consecutively:

- object identification;
- records – stocktaking of resources and possibilities;
- documentation;

- maintenance – security – preservation;
- institutionalisation;
- an account of the market opportunities and potential;
- market research;
- offering;
- commercialisation (price, profits, losses);
- communication – promotion of offers and attractions;
- integration of the functions– balancing goals and tasks.

The suggested structure of the marketisation process of the cultural heritage institutions activities, envisages a comprehensive and diverse preliminary stage. It includes, respectively, preliminary, identification and registration activities of the facility, to proceed to formal and legal

activities, making the facility independent as a separate institution.

Preparation of the market offer should be preceded by market research (external research) and analysis of one's own resources and capabilities (internal research). The proposed products (tangible, movable goods, premises, services, events) and the conditions of making such available (sales, benefits) will be attractive if they are based on the financial account of the possibilities of potential clients. The condition for success is, in the end, proper, multi-directional and adequate promotion of offers – proper market communication.

### **Closing remarks**

Perceiving and treating cultural heritage objects as entities of contemporary, developed market of goods and services requires fulfilling many general and individual conditions, conditions referring to a specific unit. Among the set of general conditions, the need to spread in the cultural environment – in the environment of guardians and conservators of historical objects, in the group of owners and operators of public and private heritage objects, – the belief that the units managed by them are largely subject to the laws of the market should be mentioned and particularly emphasised. Therefore, they are not “islands on the sea” of market relations, they are not isolated areas functioning outside the sphere of market exchange. It means that they participate in the process of buying and selling goods and services on general terms, the rules which have to be followed by all private, public, large, medium and small market entities as well as by the entities of the material and immaterial sphere of economy.

The special character of functions performed by cultural heritage objects – civilisation functions – does not exempt owners and managers from the “market concept” of their functioning, from the concept of rational management of possessed, unique resources, from the concept of continuous search in the environment closer and further to generating new sources, better and better

opportunities and higher income connected with them. There is no justification for the view, unfortunately occurring often in the environments of people of culture and art, about the uniqueness of historic buildings, about their social mission and objectives that are not allowed to be included in the market framework. Following such treatment of cultural heritage objects, in all their historical, scientific, artistic and emotional diversity, there is the need, and even the necessity, of their separation and unique placement in the market economy system.

The non-negotiable priority of the “higher” social functions of monuments with special qualities and significance for national or group identity, meaning in practice, the orientation to finance their statutory activities from public funds, national, departmental and regional budgets, does not mean automatic exemption of culture managers from the necessity to think in the categories of the modern market – categories of costs, profits, profitability, sales and benefits. The search for new markets, their selective valuation, creating new, more suited to the reported needs service offers, using flexible, variable price formulas are just some of the new ways of thinking, market orientation, the concept of marketing management of cultural heritage objects.

The mental and operational-functional change of approach to the social role of monuments does not mean that such contradictions as protect or share, limit or earn, continue or change and develop, will emerge. The new approach to the functions of cultural heritage objects in a society dominated by market relations results from perceiving these objects as specific, unique and one of a kind resources of social values subject to market laws regulating their use, sharing and presentation. It can be imagined that a “thin, red line” divides a non-commercial and commercial orientation in the activities of cultural heritage objects, a contractual line of conditional and monitored division of their spheres and forms of operational activity, a line of delimitation of interests, concepts and directions of functioning. The appropriate

division boundary, in the case of each individual facility, should be designated by its unique cultural features and values and, on the other hand, by external conditions and the circumstances of the implementation of the adopted strategies of operation and development.

The need for the mental reorientation of employee teams, groups and individuals emphasised above is undoubtedly not an easy matter, given their long-standing experience, entrenched practices, views and principles of managing cultural heritage objects. Therefore, it is necessary to consider targeted, broad programmes and informational-educational projects, presentations and analyses based on domestic and international case studies.

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Andrzej Słaboń

## **Between solidarity and the conflict of generations. Intergenerational relations in biographical narratives<sup>1</sup>**

### **Abstract**

*Objectives:* The purpose of this text is to identify the main types of intergenerational relationships and methods of integration different generations applied in everyday life. Recognition of these practices should be used in inclusion policy.

*Research Design & Methods:* This article uses qualitative methods of sociology, in particular biographical narratives (story of life) to explore types of intergenerational relationships.

*Findings:* This paper finds that relational structures are an important part of every biographical narrative. Research has identified five types of intergenerational relationships.

*Implications / Recommendations:* This article stresses the importance of biographical work and the restrictions on the creation of multigenerational groups as a fairly common way of integrating different generations.

*Contribution / Value Added:* The approach presented in this article opens new possibilities for a policy of inclusion and ways of counteracting intergenerational conflicts.

*Article classification:* research article

*Keywords:* Generation – biographical method – biographical work – relational structures

*JEL classification:* J 180

### **Introduction**

The nature of relations between different generations has a significant impact on numerous processes occurring within contemporary societies. On the one hand generation succession ensures the continuity of values and the transmission of developed principles and manners of activity in society. On the other hand, it becomes a factor in changes and transformations taking place in collective life in the long-term perspective. These two dimensions – continuity and change – are closely

intertwined and they mutually condition each other. Relations between individual generations may take on various forms, which is why it is important to recognise their current state, as well as to determine the factors shaping changes in this sphere.

### **The generation concept in the context of biographical research**

The generation concept usually covers a few slightly different meanings (Scott, 2006; Fatyga, 2005). In biographical narratives this concept most

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<sup>1</sup> The publication was financed by a subsidy granted to the Cracow University of Economics.

often relates to the relationship of kinship in a broad family (generations of parents, grandparents, grandchildren), and also refers to the differences in historical and identity experiences between “older” and “younger” people. Sometimes one can distinguish two main ways of expressing this concept, referring to “generations in the family” and “generations in society” (Kholi & Szydlik, 2000, pp. 7–18). The generation concept is inevitably associated with differences in the experience of people from different generations. These differences in experience are, more or less, clearly reflected in biographical narratives and become an important research issue.

Referring to Karl Mannheim’s theory on the sociology of knowledge (1964; 1980), biographical research distinguishes between “communicative knowledge” and “conjunctive knowledge.” Communicative knowledge is knowledge that can be passed on by the narrator, while conjunctive knowledge is a common knowledge formed within a group and treated by its participants as something “obvious”, and thus is usually not clearly realised by members of a given community. Accessing conjunctive knowledge is possible by means of maintaining longer contacts with the relevant members, reconstruction of statements in their context, analysis of behaviour and observation. Generation is here referred to as the “conjunctive space of experience”. This means that shared life and historical experiences develop a certain type of “tacit knowledge” (Polanyi, 1966) or knowledge of *implicite* type.<sup>2</sup> The conjunctive space of experience is not only a type of knowledge, but also a kind of sensitivity, behavioural patterns in different situations, a sense of familiarity with what are known as the realities of life and the ability to predict the long-term consequences of actions taken. The conjunctive space of experience also consists of understanding how the surrounding reality works in its various aspects. This “under-

standing of the world” (logic of reality) is, as one can assume, a factor differentiating generations. On the one hand, the time difference related to the length of life leads to differences in experience, and this can translate into a different level of knowledge of the realities of life. On the other hand, the experiences of previous generations (especially negative ones) can become a deterrent to taking actions that seem doomed to failure. The lack of such inhibitions sometimes turns out to be a source of the success of “impossible” ventures. The difference in life experience and a certain type of idealism is explained by the fact that most movements of protest and renewal involve mainly young people.

Given the diversity of intergenerational experience, one may formulate a thesis according to which different conjunctive spaces of experience are the main source of many perturbations in relations between particular generations. A conflict between generations is more likely to occur when there are different conjunctive spaces of experience, and the individual generations live somewhat in different “worlds”. In such conditions, problems arise with regard to communication and mutual understanding. The conflict between generations takes a different form within the family, and a different one at the level of “generations in society”. In the latter case the differences become part of a specific ideology, both sides create a negative image of the opposite generation, referring to a different axiology and rules of conduct. Each generation creates its own identity. Younger generations usually do so in opposition to the older generations. Within the family the differences relating to the conjunctive space of experience can lead to a lack of mutual understanding and, in extreme cases, to the breaking off of contact. However, it should be borne in mind that intergenerational relations can take various forms. Conflict is just one of the possible situations. It can be assumed that consent and agreement are much more common.

Determination of the type of relationship occurring between particular generations must become the subject of empirical research. The

<sup>2</sup> Karl Mannheim (1980) also uses the term “atheoretical knowledge”. Pierre Bourdieu (2000) calls this type of knowledge “practical knowledge”.

research questions that emerge in this context relate to, *inter alia*, the identification of conditions conducive to conflict or harmony between individual generations, the type of interaction and social practices within families strengthening the intergenerational bonds, and the role of peer groups in the creation of a positive or negative image of individual generations.

Intergenerational relationships can be studied in a variety of ways. This article uses a biographical method that falls within the scope of qualitative research. In this type of research, one seeks to acquire knowledge referring to the subjective world of meanings and feelings of the examined persons. All generalisations are formulated in close connection with empirical data. The collected empirical material covers 65 biographical narratives (stories about life) for people aged 20 to 90 from southern Poland.<sup>3</sup> The respondents were given freedom of expression, in terms of content, form and degree of detail. This made it possible to minimize the influence of the researcher on the structure and manner of the narrative.

In biographical narratives one can find a lot of data on the nature of intergenerational relationships in families and the working environment, as well as on the methods of their development. Biographical analysis enables one to identify practices conducive to the building of positive or negative relations between individual generations in everyday life. In each narrative one can find information about the nature of intergenerational relationships in the family or in other environments. What's more, many families have developed specific ways of integrating different generations. Recognition of these methods of integration and avoidance of conflict seems to be important for social policy, because many ways of operation

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<sup>3</sup> The interviewed persons were 40 women and 25 men. The age structure of those interviewed was as follows: under 30 years old, 13 persons; aged 30–50, 21 persons; aged 51–70, 18 persons; and ages 71 and more, 13 persons. Biographical narratives were collected between 2014 and 2017 by third year sociology students from the Cracow University of Economics.

within microstructures can be transferred into the broader levels of social life. In such a short article it is impossible to present the entire wealth of empirical material. Therefore, the author will only try to identify the main types of intergenerational relationships in families.

## **Relational structures**

Before the presentation of some findings, it is worth making one more theoretical remark. Fritz Schütze (1981), when analysing biographical materials, identified four biographical process structures: biographical action schemes, institutional schedules for organising biographies, trajectories and biographical metamorphoses. He emphasised the fact that the catalogue of process structures was not closed and assumed the possibility of separating, in empirical data, other such structures. I think that one can distinguish an additional type of process structures, namely relational structures. Each biographical narrative contains information relating to relationships in the family and relationships within different groups and environments in which the individual lives. These relations are very often dynamic and changeable, and therefore should be recognized as processes. Research on relational structures pertains to the process of their development, maintenance, reproduction and transformation. Interpersonal and intergroup relationships are a very important aspect of social life and should not be overlooked in the analysis of biographical material. This type of process structures constitutes an immanent element of every autobiographical relationship. The nature of social relations determines to a great extent the biographical fate of individuals, the decisions made by them and their satisfaction with life (or lack thereof). Relational structures must not be overlooked, especially in terms of the research on intergenerational relations, because relations and their dynamics become the centre of attention in this context.

Referring to the analysis of the obtained empirical material, one can distinguish the following

main types of intergenerational relationships in families: (i) harmonious relations, based on co-operation; (ii) relationships with episodes of conflict or rebellion; (iii) permanently conflictual relationships; (iv) broken relationships (no contacts); and (v) variable relationships. These general types of relationships require further explanation, because in the practice of family life they can take on different forms. However, it is worth noting that the nature of intergenerational relations in the family does not follow the pattern of a simple continuum, the poles of which are determined by solidarity and conflict. Conflict can take different degrees of intensity, from individual incidents to constant struggle and severance of contacts. An important state of intergenerational relationships in the family is the rupturing of contacts or their only occasional nature. Severance of contact does not have to be a consequence of conflicts. It also happens as a result of spatial remoteness, pre-occupation with professional work, or weakening of contacts despite a strong emotional bond. The third pole, which determines the nature of intergenerational relations, is therefore the pole of alienation. Under this concept there are no family contacts at all, or these contacts are very rare (occasional) only, but sometimes long-awaited. Summing up, it can be assumed that intergenerational relations in the family run in a field the poles of which are solidarity, conflict and alienation. In a given case, mutual relations in the family can be characterised by showing the distance from the particular vertices of the triangle. In one case, they can be “pure” types located near one of the vertices, in other cases the relationships can be located on one side of the triangle or in the middle, evenly spaced from its vertices, which means that all types of relationships occur in similar proportions. It is worth noting that this model of the description of relationships can also show changes in time and their dynamics.

Analysing the collected empirical material, one can notice characteristic types of narratives that also show relational structures. It is somewhat obvious that the narratives of young people concentrate

on family and peer relationships, as well as on educational problems and first loves. Sometimes, however, in certain stories of life some threads do not appear at all, while attention is focused almost entirely on relations with the parents and siblings, or, as in other cases, on the relationships with peers. This shows, sometimes inadvertently, how the dominant issues and problems are perceived in the long term. Many biographical stories show a strong influence of peer groups on making important decisions regarding further education or choosing a profession. These decisions are not always evaluated as appropriate. A substantial part of them are perceived in hindsight as life errors. As one of the respondents stated: “I wish some had advised me on that”. In turn, in some of the narratives of the elderly, almost the entire period of childhood is missing. These narratives begin after a short introduction from the moment of marriage and the establishing of their own family. The basic content of these relations is the description of the struggle to provide for the family and of the issues concerning the upbringing of children and ensuring them good future.

The relations of intergenerational solidarity in families take various forms. The most typical element is the daily care for individual family members – caring for children, for ill or disabled family members. A frequent form of mutual help in the family is the support given to adult children in raising grandchildren and in caring for the youngest generation. Solidarity between generations also takes on an economic dimension; many narratives speak about the financial support provided by the older generation. Often, the independence of young couples is only possible thanks to the financial help of their parents, this applies in particular to such investments as buying an apartment or building one’s own house. Some of the accounts show the help of family members in getting out of alcohol addiction or overcoming some serious life crisis (illness and rehabilitation, psychological crisis, deviant behaviour). Mutual support in this type of emergency situation covers both the help given



by the parents to their children, and vice versa, as sometimes the adult children help their parents give up a bad habit. Intergenerational solidarity in the family usually consists of co-operation and mutual complementation of the possessed abilities, resources and skills. In one of the families, the daughter was helping her father make his life's dreams of traveling and visiting other countries come true. Her assistance consisted of planning the trip for him and minimizing its costs, thanks to various offers available on the Internet.

Conflict relations in families in the intergenerational dimension are usually a youthful rebellion against parents' will, quarrels about neglecting responsibilities, especially in matters related to education, mixing with "bad company", constant "partying", alcohol and (rarely) drug use. This results in the occurrence of various arguments and grievances in families, as the parents and the whole family intend to change the undesirable behaviour of an individual. In most biographies the thread of opposition to the applicable rules of behaviour imposed by the family and school is a short-lived episode. In a few other cases, this condition persisted for many years and the pressure of the family turned out to be ineffective. As a result, this situation led those people to addiction to alcohol (or other drugs), conflict with the law, and even homelessness. In the case of one of the respondents, the real threat of imprisonment brought about a change in his life.

Another type of conflict (or quasi-conflict) situation is connected with the lack of acceptance by the parents of the choice of the way of living made by young people. A very good example of this may be a father's long-term disapproval of his daughter's decision to enter a convent. In other cases, devoting time to the pursuit of youthful passions was treated by the parents as something wrong, which in the context of the later developments of these individuals was not always right. Another type of conflict resulted from feelings of unfair treatment by parents. In the case of rural families, this concerned unequal distribution of duties in running farms. The difficulty in resolving this

type of situation became the reason for leaving home and migrating to the city. Some family conflicts occur because of an unfair distribution of inheritance. Decisions of deceased parents may lead to a state of permanent hostility between siblings.

Conflict relations may also result from abuse of family solidarity. An illustration of this type of situation is the taking of a bank loan for running a business. When the planned project was unsuccessful, the loan had to be repaid by the mother of an unfortunate businessman. This drama is all the greater if the problems with the functioning of the company arose as a result of misunderstandings between the partners, leading to alcohol addiction.

Broken intergenerational relationships may occur as a consequence of conflicts in the family or as a result of spatial separation. In the latter case, there is usually a strong emotional bond, but the contacts are sporadic. Broken contacts cause a sense of loneliness, what is known as empty nest syndrome often appears, and the contacts are accompanied by a sense of lack of understanding from close relatives. Rare contacts between family members are conducive to concealing certain problems and difficulties for the loved ones. Such people do not want to cause others worries and additional problems, as their relatives are not able to remedy them in any way. An extreme case of hiding life problems from their families is the case of a homeless person who hid this fact from his own daughter. Each generation has its own secrets, which it reluctantly reveals to others. This applies to both youthful "secrets" hidden from adults, and to the hiding of troublesome facts from younger members of the family. Another problem that is rarely included in the narratives are the shameful mysteries from the past, the disclosure of which can destroy the positive image of a person in the eyes of the relatives.

It should be noted that intergenerational relations in families can fluctuate. In different periods, a different type of relationship often dominates. The original conflict and the sense

of lack of understanding between a son and a father gradually turns into a more mature and harmonious relationship. In other cases, relationships with parents who had emigrated to the USA and from there provided financial assistance to the family were significantly worsened after the parents returned to the country permanently.

Different types of intergenerational relationships within a family can be distinguished taking into account two basic dimensions: the frequency of mutual contacts (low or high) and the strength of emotional bonds (also low or high). By crossing these two dimensions, one can get a spectrum of possible types of relationships. The low level of emotional ties and rare contacts reveal “broken relationships”, poor relationships and frequent contacts often lead to “quarrels”, a strong bond and rare contacts are a “waiting” situation, a strong bond and frequent contacts are “integration”. The average values of the strength of the ties and the frequency of contacts determine the spectrum of possible mixed types, located between the “pure” ones.

The dominant type of relationship in the family may change, not only as a result of slow evolution, but also as a result of the occurrence of some unexpected events dramatically changing the situation of people. Situations of this type are referred to as trajectories (Strauss, 1987; Strauss & Glazer, 1970; Schütze, 2012). As a result of their occurrence, the affected individuals lose control over the course of their life. As regards intergenerational relations, one can speak of yet another type of trajectory. It concerns relatively slow changes in the relations of authority between adult children and parents within the family. For a large part of their lives, young people try to free themselves from parental authority. This situation changes when they notice that their parents (or one of them) require constant assistance. The dominant positions are reversed in such cases. Both sides are forced to redefine their role and establish mutual relations on a new level. Sometimes the existing relationships are reversed, in the sense that if formerly the parents directed the behaviour of their own children, now adult children decide

to a large extent about the fate of their parents and enforce behaviours they deem necessary. The course of this process is usually associated with suffering for both parties.

### **Biographical work**

Those who tell stories of their own life can often recognise their own identity as well as their generational identity. These identities are partly discovered and partly constructed. By the very fact of telling about their fate and events from the past, the individuals gain the opportunity to see how they function in different situations of everyday life and different types of interpersonal relationships. Story telling can lead to identity changes. Peter Berger (1963) speaks in this context about the processes of alternation of biography – the individual modifies the meaning of certain events from the past by adapting them to a later state of affairs. Some events are considered not important, while others are viewed as significant. Some events from the past acquire additional significance in the light of the later fate of the individual. It is highly probable that these events would be forgotten if the history of the individual’s life were different. Thanks to this type of processes, one can create a sense of one’s own existence. In this regard, biographical narratives can serve as a helping interview (Benjamin, 1969). Telling the stories of life allows one to look at one’s own fate from a certain distance, give coherence to one’s own life story, strike a balance of achievements and introduce possible changes to the way one functions, to relationships with others, etc. Similarly to the concept of social work, in this case one can distinguish biographical work. Biographical work can be seen as a form of help (and self-help) for people, allowing them to better understand the meaning of their own existence and to prepare them for making important changes in their lives. Biographical work allows one to change the way one defines one’s current situation in the context of one’s own past and life experience (Fischer, 2000). Bearing in mind the indicated possibilities,

biographical work is a potentially useful instrument for the development of the policy of inclusion at the level of the family and small groups.

Telling the history of one's own life to people from the younger generation has many important functions. On the one hand, it is an element of the process of transmission of the acquired life experiences, showing behaviours of different people in specific existential and historical situations, and giving the situational context of the decisions made. It seems particularly important to pass on to younger generations the "tacit knowledge" contained in the context of the narrative itself. On the other hand, telling a story of life allows the narrator himself/herself to organise the outlook on his/her fate and give it greater coherence. It is understandable that one may often encounter deformities, purposeful or unconscious distortions of facts, attempts to mythologise oneself or conceal "uncomfortable" and even embarrassing events from one's own past. However, this does not diminish the significance of this type of story, because it inadvertently documents a certain state of mind and a way of expressing the world. The vision of reality presented in the narrative will sooner or later clash with different perspectives, adopting a different point of view and ways of valorisation. These processes are also shaped to a large extent by great re-evaluations regarding changes in the methods of assessing historical processes.

### **Shaping intergenerational relationships**

Influencing the shape of intergenerational relations becomes an important element of social policy. This applies particularly to relationships within the family. Through various types of benefits and social transfers directed to families, the state tries to positively influence not only their living situation but also, indirectly, the nature of social relations occurring in them. Particular forms of social policy depend mainly on what happens in families and what problems occur there. However, one should bear in mind the fact that families solve

many problems by themselves, without the help of the state and other institutions. Some of these modes of action developed within families are worth recognising and utilising on a wider social scale. In terms of intergenerational relations, it is important to recognise the ways of the exertion of positive influence on these relations, as well as to examine the opposite situations. In this way, one may prepare new social policy instruments using methods of action developed within families and other small groups. In this case, the task of social policy is to create an institutional framework helpful in the resolution of problems arising in families. Positive experiences of some families can be used to overcome the problems of other families. Of course, this cannot be done mechanically, but the utilised practices form the basis of knowledge based on empirical data.

In many social policy programs, one assumes the fact that the best way to integrate generations is to create age-diverse groups. This type of approach is evident not only in numerous local initiatives, but also in business organisations, where one creates employee groups that connect young people and employees with extensive professional experience. However, the question of a harmonious operation of such groups arises. Practice shows that sometimes such groups with a mixed composition work harmoniously and produce good results, but sometimes internal divisions ("young" and "old") and conflicts occur. Within mixed-age teams, one can see the emergence of subdivisions into age (peer) groups. The facts indicate that mere aggregation of people from different generations may not always bring the desired effects and does not have to lead to the integration of different generations. This type of recipe for an effective inclusion policy seems too simplistic.

Mixed generational groups may experience quite complex processes, which are contingent and which do not always lead to desired results. Intergenerational contacts can occur at different levels of intensity. The least intense form is a situation when two generational groups function in short-term (episodic) and official relationships.

This type of group contact is characterised by the fact that each group stays in its own circle and separate generations actually function next to each other. This contact consists of being together for a short time, but without deeper integration and mutual understanding. An example of such contacts are organised meetings of young people with seniors or veterans, during which they listen to the memories of the elderly, and sometimes, in return the young people give some artistic performances. Such meetings have an important value, bring closer the events from the distant past in the context of individual experiences, enable textbook knowledge to be supplemented, and create the chance for a more permanent and deeper relationship, but their essential feature is an occasional and short-term contact.

On the opposite pole of a specific continuum of intergenerational relations is the situation of permanent and continuous living together of people from different generations. This type of situation occurs in multi-generational families as well as in some employee groups. The fact of being together in everyday life builds a different type of relationship, it allows one to get to know the personality of other persons, their advantages and disadvantages, the way they function in happy times and in difficult moments<sup>4</sup>. Such contacts also allow one to pass on “tacit knowledge”. Many variables affect the shape of these relations, which may be of a very close and intimate nature or take on a conflict character. On the one hand, personality factors, mutual respect, personal culture, and financial conditions play an important role in this respect. An important factor is also the extent to which the mutual relations (e.g. the need for constant care) prevent one from fulfilling one’s

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<sup>4</sup> It is worth noting that relationships based on a permanent and common living together relate not only to intergenerational contacts, but may also apply to other groups, especially those affected by some dysfunctions. A model example of a conscious choice of a way of life, consisting in sharing life with people excluded from society is the example of Saint Albert Chmielowski and his dedication to the homeless.

own life plans, or requires a huge devotion to the other person and whether someone is willing to incur such kinds of sacrifices.

Interpersonal relations in the generational dimension usually take two forms: these are either contacts within a generation or intergenerational contacts. These two types of relationships are equally needed and intertwine in everyday life. Important processes occur in each type of the contacts. Relationships between members of the same generation group (peer group) have a slightly different character than those taking place in multigenerational groups. Peer groups can develop separate norms and rules of behaviour, which differ from those applied to relations with members of the older generation, as well as from the rules binding in various “official” situations. One of the most important norms regulating relations in peer groups is the principle of solidarity. It manifests itself in, *inter alia*, the need to keep certain group secrets and loyalty to other members. Here, too, there are behaviours that in other situations would be treated as “inappropriate” or even reprehensible. To some extent, one can observe here a division into the quasi-private sphere and public sphere. The first sphere is dominated by contacts of a friendly and more equal nature, the second one includes an element of hierarchy and the relationships are asymmetrical, which may create a certain distance and greater concern for the desired image (therefore certain behaviours and opinions are not disclosed).

The nature of relationships within the same generational groups facilitates the communication process and promotes mutual exchange of information. As a result, it often leads to mutual learning of certain behaviours within peer groups, as well as acquisition of new skills and overcoming of barriers in the access to the desired goods and resources. This kind of generation tutoring takes place on an informal level and it solves a number of life problems of particular persons. The indicated communication processes also take place in the intergenerational dimension and are subject to institutionalisation (this takes place

at school and in the family and organisations). Sometimes, however, the generational difference may generate a distance, because it is related to the relations of authority and subordination, which is a barrier to the free exchange of information. People in a lower position in the hierarchy do not often have the courage to ask for additional explanations, because they may be afraid that by asking questions they will be considered uneducated or they will disgrace themselves to a certain extent. Similar concerns may arise in the opposite case: older people may be concerned about asking the younger people for explanations, because this can be seen as a reversal of the normal hierarchy. For these reasons, the exchange of knowledge at an equivalent level is burdened with a smaller risk of the loss of authority.

In groups of staff from different generations, sometimes one has to deal with problems concerning the relationship of authority, especially when a person from the younger generation becomes the superior of a person from the older generation. Older people with longer professional experience are special keepers of institutional memory: they were witnesses to how the organisation functioned in the past and how it evolved, witnessed the beginnings of the careers of people who currently occupy important positions, and remember important events in the life of the organisation; they are often the creators of organisational legends and anecdotes, also know various organisational secrets and unsaid matters. This type of knowledge passed on to younger people can fulfil positive functions in the process of the creation of the organisational identity; on the other hand, it shows alternative ways of functioning of the organisation, and can also strengthen undesirable patterns of behaviour. Thus, one can see that intergenerational contacts can play a dual role, becoming an instrument of the continuity of social life, *inter alia*, thanks to the transfer of knowledge unavailable in official channels.

## Conclusions

Intergenerational relations have a significant impact on the course of many social processes and can be analysed from different theoretical angles. The position adopted in this paper falls within the scope of research under qualitative sociology. Referring to the biographical method, this paper attempts to identify the main types of intergenerational relationships. The relational structures were distinguished as another type of biographical process structures. Relational structures are an important part of every biographical narrative. Based on the analysis of the biographical narratives (story of life), five types of intergenerational relationships have been identified: (i) harmonious relations, focused on co-operation; (ii) relations with conflict episodes; (iii) permanently conflictual relationships; (iv) broken relations; and (v) variable relationships. One assumes the fact that on the basis of the analysis of intergenerational relations in families it is possible to recognise the methods of integration of generations applied in everyday life, which should be utilised on a wider scale in the inclusion policy. In this context, the author stresses the importance of biographical work and the restrictions on the creation of multigenerational groups as a fairly common way of integrating different generations.

Finally, as part of the conclusions, it is worth presenting several proposals for a policy oriented towards building positive relations between different generations. The main objective of the inclusion policy is to create a better understanding between generations in the family and in society. The inclusion policy should be focused on eliminating potential conflicts in the family (especially between the “young” and the “older”), improving mutual understanding and counteracting social alienation. Creation of multi-generational groups favours the transmission of tacit experiences and knowledge at an informal level. The older generations should feel obliged to pass on to the younger generations knowledge and experiences about living conditions and their personal experiences in earlier times.

The creation of multi-generational groups cannot be a universal recipe for an effective inclusion policy. The optimal condition is rather a balanced participation in both peer and multi-generational groups. Many different ways of effective cooperation and intergenerational integration that can be used to conduct social policy on a larger scale have been developed within families and small social groups. Biographical work can be a useful instrument for the development of the inclusion policy. Finally, last but not least, it is necessary to eliminate all forms of ageism from public discourse and everyday life.

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## Participatory budget in metropolies as instrument of direct democracy in public management: experience of Poland and Ukraine<sup>1</sup>

### Abstract

*Objectives:* In the article a comparative research of the participatory budgeting systems at the local level in Poland and Ukraine was carried out.

*Research Design & Methods:* The objects of the study were ten cities of the specified states (five from each country). In the case studies, systemic analysis of legislations of Poland and Ukraine in public finance sphere connected with participatory budgeting were used as well as quantitative analyses of budget resources directed at supporting participatory budget. Using this approach gave us the opportunity for complex research of participatory budgeting mechanism in both countries.

*Findings:* As a result of the research, the peculiarities (differences) of the practice of using participatory budgets as tools of direct democracy at the Ukrainian and Polish cities' level were specified. On this basis, the authors outlined obstacles for the efficient use of participatory budgets based on the experience of the two countries, formulated guidelines and standards in compliance with which it would be possible to implement quality participatory budgeting into practices of the cities' public administration.

*Implications / Recommendations:* This article indicates the need to conduct analyzes of participatory budgets to draw conclusions and effectively use this tool in the future.

*Contribution / Value Added:* This research builds knowledge about participatory budgeting by analysing the use of this instrument of direct democracy in two different countries (Poland and Ukraine), which are at different level of EU integration an may help effectively plan and implement participatory budgeting in different national contexts.

*Article classification:* research article

*Keywords:* participatory budget, public management, civil society, local authorities, city development policy

*JEL classification:* H830, R510, H610.

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<sup>1</sup> The publication was prepared under the project „Economic analysis of the marginalization of ownership in economy”, No. 056 / WGAP-KAP / 01/2018 / S / 8056, co-financed from the grant of the Ministry of Science and Higher Education for the Faculty of Economy and Public Administration of Cracow University of Economics.

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## **Introduction. Participatory budgeting as a new stage of development of public administration**

The development of democracy leads to changes in the system of public administration. The processes of transformation are either evolutionary at the national level, often in the form of reforms, or they have faster pace and go through a revolutionary way. However, these processes are often based on the changes at the local level – the level of metropolises, which are centres of potential concentration and engines of development of regions and countries.

With the development of European civilization based on ‘the power of the people’, the democratic values, which are embodied in the new approaches to public administration such as, for example, public governance, are moving further and further eastward beyond the modern European borders and the best practices of the EU countries are implemented first of all in countries seeking to become part of the European community.

Democracies are developing not only through their representative form at the national level in the parliaments, Sejms etc. The most visible development is obtained in the democracy’s primary form, at the local level – level of communities through the development of direct democracy instruments such as participatory budgeting (PB).

Today, given the diverse practice of using PB in different cities, it is difficult to talk about the effectiveness of using this instrument. This, first of all, is because of the different understanding of the PB by local self-governments and different approaches to its implementation (the organization of this process), which has both its positive and negative points.

On one hand, diversity helps to test simultaneously different approaches in different cities, and thus creates the preconditions for gaining a unique experience of public administration. On the other hand, this approach leads to difficulties in using this instrument in cities where it has not been used before (complexity of the choice of an

adequate form of organization) and fragmented implementation of only some of elements of such instrument, which leads to a decrease in its effectiveness and, as a consequence, resignation after some time from its using. It is also difficult to make comparisons and evaluations due to significant differences in the organization of the PB implementation processes.

Despite current local contexts and specific cultural conditions of PB, it is possible to indicate certain features that can and should be unified here because of the fact that PB constitutes an element of a legal system that unifies operations, and secondly in Poland and Ukraine we have, apart from differences, common problems related to the functioning and development of PB, so some of the conclusions, challenges and recommendations may also be subject to standardization.

A solution to these problems may be the formation of a unified approach to organizing the PB process, based on a wide range of examples of the use of this tool in different cities, regardless of the country of origin. This will enable forming a universal vision of the PB process, which can be used by city authorities as a framework for implementation of this mechanism. The following analysis was conducted for selected cities in Poland and Ukraine. Due to the limited comparative possibilities within the research material, it was decided to compare data for 2016, so we also analyze PB according to the legal status applicable in 2016.

## **Literature review and the issues concerning research**

PB is a topic well recognized in Polish, Ukrainian and world literature. Many scientists use the example of Porto Alegre and identify principles of PB implementation, that in general could be described as (1) direct citizen participation in government decision-making processes and oversight; (2) deterring corruption through administrative and fiscal transparency; (3) improvements in urban infrastructure and services, especially



aiding the indigent; and (4) a renewed political culture in which citizens would serve as democratic agents (Gilman, 2016). These principles are still “the basis” of implementation of participatory budgeting into practice in many countries all over the world (Dias, 2019).

Principles are necessary as ‘road signs’ for a general understanding of PB, but for effective use of this instrument, it is important to correctly understand the essence of PB and choose the best way of its implementation based on good practices and local peculiarities.

In this context good definition was given by A. Shah (2007), who pointed, that participatory budgeting is a tool for educating, engaging, and empowering citizens and strengthening demand for good governance. In this way he created scientific basis for the understanding of participatory budgeting.

The authors of this paper also agree with the opinions and findings made through the research which are described in following sentences: “in Europe, participatory budgeting relies on multiple procedures, and it is therefore necessary to give a clear methodological definition of it so that cases can be coherently compared and ideal types constructed to understand the variety of concrete experiments” (Subtiner. Gertberg. Röcke, 2008).

At the same time, the results of the comparison of PB implementation in different countries of Europe, which were made by number of scientists (Džinić, Svidroňová, Markowska-Bzducha, 2016) are interesting. For example, in Poland, it is worth mentioning B. Sorycha-Wojczyk (2015), A. Sobol (2017), or A. Olech (2012). In Ukraine, interesting research was conducted by a scientist of the Institute for Budget and Socio-Economic Research (2019) who described Ukrainian experience of PB implementation.

At the same time, the results of the researches show a lot of differences in approaches to PB implementation, which on the one hand gives us many variants to choose, but on the other hand creates a too difficult picture for understating how to organise the process for effective achieving aims of a city development.

For practical implementation of PB, it is really important to make a complex comparison of the practice of using this tool of direct democracy in order to formulate some effective unified approach. In particular, the analysis of the legal framework on which the PB is based in a particular country would be useful as well as concrete examples of its use at the level of cities that are at different stages of democratic institutions’ development.

PB has both strengthened the dominants in the political field and changed the game played there. It has been characterized by accountability practices favouring the election of councillors with distinctive capitals, who were ‘dominated-dominants dominating the dominated’ (Cabannes, Lipietz, 2017).

Participatory budget has been a major innovation in participatory governance worldwide, with more than 3,000 items listed across 40 countries (Bartocci, Grossi, Mauro, 2018). Today, participatory budgeting mechanism are common in many cities in Poland and are gaining popularity in Ukraine, as evidenced by the rapid growth in the number of cities that use this tool of direct democracy.

Based on the above, interesting for us will be a research vision of participatory budgeting of local self-government of cities in Poland and Ukraine. The public administration vision of participatory budgeting, depends on the efficiency of using of this tool by citizens, local government and business representatives. At the same time, the presence of a significant difference in understanding of different management tools by practices and theorists of public administration will constitute an obstacle for the improvement of the participatory budgeting and will reduces the quality of social dialogue between citizens, scientists, businessmen on the one hand and local governments on the other.

### **Material and methods. The legal basis for participatory budgeting**

In Poland participatory budgeting is one of the financial tools stipulated by Polish law. Among others, the following examples of instruments should

be mentioned here: local initiatives, small grants, regranting, loans, financial guarantees. Participatory budget is a tool not only for the third-sector units, but NGO's are focusing most actively on local societies. Participatory budgeting in Poland is treated as a typical tool for local or even micro-local communities, however, for example małopolskie voivodeship self-government authorities have decided to make the first participatory budgeting at regional level in 2016.

Talking about legal framework for participatory budgeting in Poland, we should mention several legal acts: the Act on Municipal Self-Government (1990); the Village Administration Fund (*Fundusz Sołecki*) Act (2014) and the Public Finance Act (2009); envisaging participatory budgeting to become part of the public life of self-government communities. In the above legal acts, there are several rules that allow to create the tools for social participation. Participatory budget mechanisms could be based on the municipality's auxiliary units or on the municipalities themselves.

The main legal basis for participatory budgeting in Poland comes from the Act on Public Benefit Activity and Volunteering of 2003. According to this act, participatory budgeting is one out of eight financial tools permitted to be used by Polish self-governments in order to achieve the following goals: to raise the trust to public administration, to make the local policy more efficient, to share the power and to make the society more responsible for their decisions, to teach the people that we all are living in the conditions with unlimited needs and limited resources, to stimulate the society's activity and creativity. Among other financial and non-financial tools, participatory budgeting constitutes a proper tool for each kind of social circles.

Modern Ukrainian realities of normative regulation of participatory budgeting are based on number of documents. For example, Ukrainian Constitution contains some statements that are a reflection of ancient history, a foundation of democracy and a reflection of European social values. In particular, Article 5 states that 'the bearer

Table 1. Genesis of participatory budget in normative acts of local councils of examined Polish cities

City	Interpretation of participatory budget essence
Warsaw	The city Mayor has appointed the participatory budget council for the period 2017–2020 as well as the councils for the Warsaw districts. The main goal is to support the process of participatory budget implementation. Earlier, the city Mayor has agreed with the City Council about the total amount of funds dedicated to participatory budget for year 2017.
Cracow	The city Mayor has appointed the participatory budget council – more numerous and with different goals than the council in Warsaw. The most important goal of Cracow participatory budget council is to promote participatory budget in Cracow and to evaluate the program. It is worth to notice (the same situation exists in each examined Polish city) that one step before appointing the participatory budget council it was needed to agree with the City Council on the sum of funds for the participatory budget in year 2017.
Lodz	The city Mayor has created participatory budget for two years (2017/2018) with the similar organizational basis as above: temporary commission for social participation and participatory budget.
Wroclaw	There is the Office for social participation dedicated to sharing knowledge connected with the participatory budget. Thanks to the Office's team a dozen of open meetings with inhabitants were held. Civic laboratories for ex-ante consultations.
Gdansk	The most interacting forum among the examined cities. Most of the activities were conducted through the website. A material part of total sum was spent on participatory budget promotion and information for inhabitants. The most important decisions were made by the City Mayor and the City Council. In addition, there is a consultation council whose main goal is to help to create the proposals.

Source: own study based on information provided by PB websites of each city.

of sovereignty and the single source of power in Ukraine are the people. The people exercise power directly and through state bodies and local governments...'.<sup>2</sup>

Meanwhile, as the practice of using this instrument of direct democracy shows, relations during processes of planning, projection and implementation of participatory budget are not directly regulated by any Ukrainian legal acts. But, some prerequisites are contained in the main normative act for local government in Ukraine – the Law of Ukraine ‘About Local Government’.

Thus, in accordance with Article 3 of the Law ‘Citizens of Ukraine exercise their right to participate in local government as members of local communities...’. Article 9 states that ‘... members of territorial communities have the right to initiate proceedings in the Council (as the local initiative) with regard to any problem which lies within the jurisdiction of local government...’.<sup>3</sup> As we can see, these parts of the current Ukrainian legislation do not contain direct norms for participatory budgeting but they create prerequisites for the use of this instrument of direct democracy in Ukraine.

At the same time, participatory budgets in Ukraine have been adopted on the basis of local regulations (decisions of local councils). The article explores the practice of legal regulation of participatory budgeting based on the example of such Ukrainian cities as Kyiv (Київ), Lviv (Львів), Rivne (Рівне), Khmelnytskyi (Хмельницький) and Chernivtsi (Чернівці). These cities have been chosen because they are regional centres and in view of the availability and completeness of the information on the process of participatory budgeting.

<sup>2</sup> Ukraine. (n.d.). *Konstytutsiia Ukrainy [Constitution of Ukraine]*. Zakon Ukrainy vid 28.06.1996 № 254k/96-VR, <http://zakon0.rada.gov.ua/laws/show/254%D0%BA/96-%D0%B2%D1%80> (accessed on 17 July 2018).

<sup>3</sup> Ukraine. (n.d.). *Pro mistseve samovriaduvannia v Ukraini [On Local Self-Government in Ukraine]*. Zakon Ukrainy vid 21.05.1997 № 280/97-VR. <http://zakon2.rada.gov.ua/laws/show/280/97-%D0%B2%D1%80> (accessed on 17 July 2018).

Since the adoption of the program 3–5 years ago, the commitment of local authorities to use this tool of direct democracy may be observed which indicates a desire to establish cooperation with citizens and to attract them to the budget process at the local level in a medium term perspective.

Perhaps the reason of the different approach to regulatory support of participatory budgeting lies in different understanding of the essence of this instrument of public administration. Interpretation of the participatory budget contained in relevant decisions of municipal councils of selected cities are shown in Table 2.

Thus, public administration of Kyiv interpreted ‘participatory budget’ as an interaction with the public within borders set by the city council. This interpretation actually reflects not participator budget, but participatory budgeting. Lviv City Council briefly defines the essence of the participatory budget as a method of city expenditure planning (or some part of city expenditure). Rivne City Council explains ‘participatory budget’ as part of the city budget, which funds winning projects. In Khmelnytskyi, we have a similar position to the Kyiv but here the budgetary participation is limited and include citizens’ involvement at the stages of projects’ submission, voting for the projects, without extending the role of citizens to the implementation phase. In Chernivtsi, participatory budget constitutes a local budget program for the introduction of innovative mechanisms for citizens’ participation.

So, we can see from the analysis, that the governments of selected cities in Ukraine haven’t unified their point of view on the essence of the participatory budget, which leads in practice to mixing concepts of participatory budget and participatory budgeting and, consequently, limits the involvement of citizens in the budget process at the local level in Ukraine compared to the European practice.

At the same time, it is important to point to the differences in legal regulations of PB in examined countries. In Poland, definition of PB is given in the law at the national level, which

shows the same perspective of understanding for all local self-governments. In Ukraine, there is an opposite situation. National law doesn't regulate directly PB and the use of this tool – it is

a completely local initiative, that leads to different understanding of its essence and differentiation of its implementation approaches.

Table 2. Genesis of participatory budget in normative acts of local councils of examined Ukrainian cities

City	Interpretation of participatory budget essence
Kyiv	Public budget of Kyiv – the process of interaction between Kyiv City Council and executive body of the Kyiv City Council (Kyiv City State Administration) with the public, aimed at attracting authors and other residents to participate in the budget process through submission of projects, voting for such projects, monitoring their implementation within parameters of public budget.
Lviv	Public budget or participatory budget – method of determining the expenditure of city budget through direct vote of inhabitants of the city.
Rivne	Public budget of Rivne is a part of Rivne city budget, from which are financed activities, works and services determined by members of the territorial community under the projects which won the competition.
Khmelnyskyi	Participatory budget – the process of interaction between Khmelnytskyi city council and its executive body with the public, aimed at attracting citizens to participate in the budget process by making decisions on the allocation of certain part of the municipal budget through submitting relevant initiatives of development projects, which were designed for solving primary problems of the city and its inhabitants by way of making open public voting on such projects.
Chernivtsi	Budget initiatives of Chernivtsi citizens (participatory budget) – local budget program based on local initiative – the form of direct expression of citizens' will which implements innovative mechanisms of involving the public into dividing the city budget and is aimed at creating democratic process of discussing by the territorial community specific directions of budget expenditure.

Source: own study based on [4, 5, 6, 7, 8].

<sup>4</sup> Ukraine. (n.d.). *Pro zatverdzhennia Polozhennia pro hromadskiy biudzhety mista Kyieva [On Approval of the Provision on the Public Budget of the City of Kyiv]*. Rishennia Kyivskoi miskoi rady № 787/1791 vid 22 hrudnia 2016 r. [http://kmr.ligazakon.ua/SITE2/1\\_docki2.nsf/alldocWWW/193ED46244972EACC22580A0003C8525?OpenDocument](http://kmr.ligazakon.ua/SITE2/1_docki2.nsf/alldocWWW/193ED46244972EACC22580A0003C8525?OpenDocument) (accessed on 17 July 2018).

<sup>5</sup> Ukraine. (n.d.). *Pro zatverdzhennia Polozhennia pro hromadskiy biudzhety m. Lvova [On Approval of the Provision on the Public Budget of Lviv City]*. Ukhvala Lvivskoi miskoi rady № 632 vid 30.06.2016 r. [https://www8.city-adm.lviv.ua/inteam/uhvaly.nsf/\(SearchForWeb\)/285507E835D2453CC2257FE80051F2D7?OpenDocument](https://www8.city-adm.lviv.ua/inteam/uhvaly.nsf/(SearchForWeb)/285507E835D2453CC2257FE80051F2D7?OpenDocument) (accessed on 17 July 2018).

<sup>6</sup> Ukraine. (n.d.). *Pro zatverdzhennia Polozhennia pro hromadskiy biudzhety u misti Rivnomu ta Miskoi tsilovoi prohramy "Hromadskiy biudzhety u misti Rivnomu na 2016–2020 roky" [On Approval of the Regulations on the Public Budget of the city of Rivne and the Urban Target Program "Public Budget in the city of Rivne for 2016–2020"]*. Rishennia Rivnenskoj miskoi rady № 1456 vid 18.08.2016 r. [http://www.city-adm.rv.ua/RivnePortal/GetFile.ashx?type=rada&file=rish\\_15347.doc](http://www.city-adm.rv.ua/RivnePortal/GetFile.ashx?type=rada&file=rish_15347.doc) (accessed on 17 July 2018).

<sup>7</sup> Ukraine. (n.d.). *Pro zatverdzhennia Prohramy biudzhetyuvannia za uchasti hromadskosti (biudzhety uchasti) mista Khmelnytskoho na 2017–2019 roky [On Approval of the Public Participation Budget Program (Participation Budget) of Khmelnytsky City for 2017–2019]*. Rishennia Khmelnytskoi miskoi rady №3 vid 21.09.2016 r. [http://search.ligazakon.ua/1\\_doc2.nsf/link1/XM160287.html](http://search.ligazakon.ua/1_doc2.nsf/link1/XM160287.html) (accessed on 17 July 2018).

<sup>8</sup> Ukraine. (n.d.). *Pro zatverdzhennia Polozhennia pro Biudzhety initsiatyv chernivchan (biudzhety uchasti) [On Approval of the Provision on the Budget of Chernivtsi Citizens' Initiatives (Participation Budget)]*. Rishennia Chernivetskoj miskoi rady № 190 vid 12.05.2016 r., <http://chernivtsy.eu/portal/f/mr/ses2016006-190.doc> (accessed on 17 July 2018).

## Results and discussion. The research of practice of participatory budgeting of regional centres of Poland and Ukraine

Practical implementation of participatory budgeting in Ukraine was caused by the realization of international projects, usually involving organizations from EU countries, where participatory budget as an instrument of public administration have been used for a long time.

The basis for the use of participatory budgeting in practice constitutes the accumulation of certain amount of financial resources for the implementation of projects offered by citizens. As the practice of participatory budgeting in Ukraine indicates, usually the main and single source of financing are the budgets of local authorities that implement this tool of direct democracy.

Thus, after analysing the legal acts of municipal councils selected for the study of Ukrainian cities (Table 3), we cannot see in its budgeting practice any unified and clearly defined quotas of participatory budgets. The amount of financing is described as a specific part of a city budget (Lviv, Chernivtsi) or defined as a lump sum (Rivne) or annually set by the City authorities (Kyiv, Khmelnytskyi).

In our opinion, the most successful variant of the budget rule is to establish a minimum amount of participatory budget as a quota of expenditure in a city budget, which will give a guarantee to the public of financing the participatory budget on a defined scale (example of such a rule may be met in Lviv) and, in turn, such kind of regulatory norm will not limit participatory budgeting by establishing the upper limit of funding (as, for example, was made in Rivne and Chernivtsi). At the same time, the lack of regulation of this issue creates opportunity for refusing further use of participatory budgets by local government without any explanation.

The main difference between the cities comes from the fact that there is no one specified method of voting mentioned in the legal acts. Different methods mean that one of them is more useful and

trustworthy than others. For example, the biggest cities in Poland allow voting through internet or personally by presence in the City Hall. A person that would like to vote has only to give the individual identity number. Some of the cities in Poland allow voting on behalf of another person. This is an advantage, especially for old or disabled, if they are not able to use the computer for voting. The solution is risky at the same time, because it means that it is possible to use somebody's individual identity number without his permission (especially when virtual voting tools are used). And one should note the fact that bad organisation of voting could result in dropping level of trust and social activity.

The next important stage of participatory budgeting is the expertise of projects. At this stage, an expert body is formed (advisory council, committee, coordination committee, secretariat, etc.) by the city council for the evaluation of projects. Experts check projects taking into account formal requirements, realism of calculations, accordance to law and so on. Based on the results of our analysis of Ukrainian experience in participatory budgeting, we may note that in selected cities, the number of the expert body members is different and ranges from 7 persons in Rivne to undefined number without quantitative restrictions in Chernivtsi. Qualitative composition is formed of the representatives of public associations, local councillors and servants of the executive body of the city council. At the same time, in Lviv the expertise of the projects is carried out in accordance with local legislation by the Council Secretariat with the assistance of the department of the executive body of the City Council and a special committee has not been created.

The voting stage is also characterized by the methodological diversity among the analysed cities. Thus, in Kiev, a person may vote for no more than 5 projects. The right to vote is granted to the citizens of Ukraine, foreigners and stateless persons who have registered permanent residence in the territory of Ukraine, work, study in the city of Kyiv and at the time of voting are not under

Table 3. The volume of participatory budgets of the examined Ukrainian and Polish cities

No.	City	The amount of participatory budget specified in the documents of City Council	Sum in 2016 year in UAH (PLN)* thousands
1	Kyiv	Not specified	50,000.0 (7,764.0)
2	Lviv	Not less than 1% of the total approved budget expenditure of the special fund the city budget of Lviv for the year in which the proposals were submitted	16,000.0 (2,484.5)
3	Rivne	Fixed amount – the volume of participatory budgets for big and small projects of 5 million each	10,000.0 (1,552.8)
4	Khmelnyskyi	The amount of participatory budget is determined annually by Khmelnytskyi city council during approving the city budget for a relevant year	1,000,0 (155.3)
5	Chernivtsi	Up to 1% of revenues of the general fund of the city budget excluding intergovernmental transfers	7,000,0 (1087.0)
6	Warsaw**	Fixed amount set by the City Council. Budget is divided into two parts: for city projects and district projects. The total amount allocated for the implementation of the participatory budget in the district is determined by the District Board within the limits set by the President of Warsaw, taking into account the district's financial capacity.	51,215.6
7	Cracow	Fixed amount set by the City Council. The sum proposed in Long-term financial forecast for Krakow. The previous (2015) participatory budget's share was also took into consideration.	11,000
8	Lodz	Fixed amount set by the City Council. PLN 40 million were allocated, of which PLN 30 million (PLN 6 million per district) for local tasks and PLN 10 million for the city's tasks. The maximum amount for one city-wide project may not exceed PLN 2.5 million and for the local project – PLN 1.5 million.	40,000
9	Wroclaw	Fixed amount set by the City Council. PLN 21 million for district projects. When equal division between the 14 districts, it means the amount of PLN 1,5 million for each district. PLN 4 million for city-wide projects. The cost of one project may not exceed PLN 2 million. The total amount of funds allocated for the implementation of the projects will be divided into three quota thresholds: for small projects with a value not exceeding PLN 150 thousand, for medium projects worth between PLN 150 and 500 thousand and for large projects worth more than PLN 500 thousand.	25,000
10	Gdansk	Fixed amount set by the City Council. PLN 8.8 million is the amount allocated to district projects implemented in 34 districts and PLN 2.2 million is the amount allocated to city-wide projects.	11,000

\* This and further indicators in PLN calculated for Ukrainian cities by the authors based on National Bank of Ukraine official rate of PLN to UAH (1 PLN 1 = 6,44 UAH) as of 31.12.2016.

\*\* Polish cities budgets are presented in PLN thousands.

Source: own study.

16 years of age. In Lviv, not only the residents may vote, but also people who were born or possess real estate or are studying or working in Lviv, and every one can vote for two projects (one big and one small). In Rivne, only the citizens of Ukraine aged over 16 may vote, working, studying or carrying out business in the city. Voting

is allowed for six projects (3 big and 3 small). In Khmelnytskyi – a person may vote for no more than 5 projects. Participation in voting is allowed for the citizens of Ukraine – city residents. In Chernivtsi, selection of the best projects is carried out by voting of citizens registered and living in the city who are at least 16, based on

the Ukrainian passport. Every citizen can vote for no more than for 2 projects – one big and one small.

The last stage of participatory budgeting is the implementation of the victorious projects carried out by the managers of budget expenditure in accordance with the law. As our research shows, participation of projects' authors and citizens of Ukrainian cities at this stage is limited. In Kyiv, the authors of the projects can monitor their implementation. Probably, a way of such control is the mandatory interaction between executors of projects and their authors during implementation process. In particular, the executor of the project, after developing project documentation, sends it to the author of the project (or an authorized person) for approval. Also, in line with the current legislation in force, the author (at his/her request) may be involved in project implementation e.g. for author control or technical supervision.

In Rivne the authors can obtain information about the progress of the project implementation and compare documents with results of project realization. But, these norms are general and do not contain specific procedures for the authors' participation in project implementation. In Chernivtsi, the author can obtain information about the progress of the project, carry out public control of the works and achievement of the expected results. But, the mechanism of such control is also not specified. It is important to note that the official documents of local councils of Khmelnytskyi and Lviv do not include norms, based on which authors and citizens can take part in implementation process of the projects. Execution of the projects is carried out by official bodies due the budgetary legislation in Ukraine.

In Poland, in the examined cases, it is allowed to submit participatory budget projects at the age of 16. In some cases, it is not necessary to be the permanent resident of a city, but there is also a higher risk of attempted forgeries. That's why cities who decided to include non-permanent residents of the city, often decide to use more strict procedures regarding identification of the voters. Elongated procedures may discourage people from

submitting projects and voting. This is the most likely reason of low attendance (small number of participants in 2017 edition in Cracow – around 25 thousands).

A number of quantitative indicators of the participatory budgeting in Ukrainian cities are shown in Table 4. The first interesting feature is that in practice some Ukrainian cities are setting the maximum amount of participatory budget based on the quality of the project making decisions on increasing funding for the projects (Lviv + 9.56%, Chernivtsi + 43.5%) and other cities formed a project portfolio based on the declared amounts.

The share of expenditure for financing the successful projects in the framework of participatory budgeting does not exceed 0.2% of the total budget expenditure of the cities. The lowest share was in Khmelnytskyi (0.0024%) and the highest in Ukraine's capital – 0.1235% and the average amount for the analysed cities is 0.044%. In our opinion, this indicator is low and may be acceptable only at the early stage of participatory budgeting implementation in the budget process of the cities. But over time, in order to ensure real impact of citizens on the development of the cities, it is necessary to review and correct it in line with the European practice.

An interesting result of our analysis are indicators which determine the participatory budget per capita. We have found out that the largest amount of money within a participatory budget which can be managed citizens' votes was fixed in Rivne, where it was UAH 39.63 (PLN 6,15) per capita. City with the lowest amount in this regard was Khmelnytskyi with only UAH 3.65 (PLN 0,57) per capita. The average sum among the analysed cities is UAH 24.27 (PLN 3,77). In our opinion, the obtained results can constitute the basis for establishing a reasonable method of formation of total scale of participatory budget. By it calculation, based on the per capita amount and city's population, the total amount of the participatory budget may be determined which is easier and clearer both for local authorities and the citizens, which at the same time may be helpful when calculating

Table 4. The analysis of participatory budgeting in cities of Ukraine and Poland

No.	City	Total expenses of the city, in 2017 (UAH/ PLN th.)	The planned amount of expenses on participator-y budget (UAH/ PLN th.)	The total budget for the projects (UAH/ PLN th.)	The level of the plan execution in participatory budget, %	Part participatory budget in total expenses of the city, %	The city's population on 1.01.17, in thousands people	Part of participatory budget per capita, (UAH/ PLN th.)
1	Kyiv	40,469,442.3 / 6,284,074.9	50,000.0 / 7,764.0	49,996.0 / 7,763.4	99.99	0.1235	2,906.6	17.20 / 2.67
2	Lviv	5,392,529.4 / 8,370,349.3	16,000.0 / 2,484.5	17,530.0 / 2,722.1	109.56	0.0433	758.5	23.11 / 3.59
3	Rivne	2,149,522.5 / 333,776.8	10,000.0 / 1,552.8	9,805.5 / 1,522.6	98.06	0.0242	247.4	39.63 / 6.15
4	Khmelnytskyi	2,358,508.6 / 366,228.0	1,000.0 / 155.3	979.4 / 152.1	97.94	0.0024	268.5	3.65 / 0.57
5	Chernivisi	2,166,731.0 / 336,448.9	7,000.0 / 1,087.0	10,045.4 / 1,559.8	143.51	0.0248	266.0	37.76 / 5.86
6	Warsaw	14,867,224,652	50,000,000	51,215,551	102.4	0.34	1,726.5	29.66
7	Cracow	3,730,006,051	11,000,000	10,818,564	98.35	0.43	765.3	14.14
8	Lodz	3,539,738,656	40,000,000	4,000,000	100.0	1.13	709,757	56.36
9	Wroclaw	3,953,577,738	25,000,000	24,575	98.0	0.62	632,432	39.0
10	Gdansk	2,681,000,000	11,000,000	10,961,525	99.65	0.41	461,494	23.75

Source: own study.



Table 5. Number of projects and activity of citizens of Polish and Ukrainian cities during voting for the participatory projects in 2016

City	Number of submitted projects	Number of accepted projects	The number of persons who voted	% of persons who voted in the whole population
Kyiv	497	62	50,813	1.75%
Lviv	259	67	21,215	2.80%
Rivne	45	31	2,151	0.87%
Khmelnyskyi	80	12	3,256	1.21%
Chernivtsi	58	31	7,717	2.90%
Warsaw	2333	644	172,395	9.98%
Cracowe	611	92	39,850	5.21%
Lodz	NDA	87	134,950	19.01%
Wroclaw	NDA	66	104,884	16.58%
Gdansk	180	65	37,965	8.23%

Source: own study.

participatory budgets for Ukrainian cities that have not used this tool of administration yet.

In the course of the analysis of organizing and implementing PB processes in the Polish and Ukrainian cities, common problems may be noticed: a relatively small number of those entitled to vote and use the possibility of taking an active part in the participatory budget (based on the reports summarizing PB results in individual cities conducted by city councils or independent entities (Table 5).

The activity of citizens during the vote in the analysed Ukrainian cities is on average 1.91%. This indicates that there is low interest of citizens in the participatory budgeting in the short history of PB use in Ukraine. The most active were the inhabitants of Chernivtsi, where 2.9% of the population voted. Such results of citizens' participation demonstrate that it is necessary to take measures aimed at popularization of participatory budgeting among the urban population. The average indicator for the analyzed Polish cities was 11,8%. It is a better indicator than in Ukraine, but also shows a low level of citizens' interest in PB.

In addition, a lot of information is not made public, which does not increase interest in PB.

The rules and criteria for projects' selection, especially in city's districts, are also unclear. PB promotion tools and channels are mostly undefined. Lack of success here is also due to the fact that in promoting PB, there is a limited level of involvement of local community leaders, councillors, etc. and the information about PB does not reach the 'unconvinced' residents of the city. This is connected with another problem – under-representation of specific social groups among voters, which affects the results of voting. All these problems can be treated as a challenge related to the need to design a new solution in the field of planning and conducting PB, which the authors address in the summary of this text.

## Conclusions

By comparing the two systems of public administration and the two ways of implementation of participatory budgeting, we have to underline that the main differences between Polish and Ukrainian systems comes from the fact that for successful implementation of participatory budgeting it is necessary to have a dozen of elements: high quality of social capital, high amount of funds, clear rules

of sharing the budget into smaller units (districts), clear and simple rules for submitting the project as well as for their voting. This influence on social interest and social trust to local administration. Polish metropolises have been spending more funds on promotion as well as for implementation of the projects. Despite different legal frameworks, it is worth to underline that the percentage of active society with regard to participatory budget in Poland is higher than in Ukraine, similarly as the number of submitted projects as well as summary budgets. It is a proof of higher level of social capital in Poland, but also there exist some problems like e.g. in Krakow, where the number of people engaged in voting is rather small.

There are different methods of providing this tool to the society among the cities even in the same country. The recommendations that come from dozens of evaluation reports are giving some points that allow the authors to create a theoretical participation budgeting circle. Taking into account the analyzes of the percentage of participants taking part in PB as well as financial outlays for the implementation of tasks in individual cities of Poland and Ukraine, a different picture emerges, considering the usefulness and effectiveness of this tool in building a competitive advantage.

Participatory budget is a popular tool, widely implemented, and its organizational solutions are often copied without reflection, without taking into account specific features of a city. Therefore, the authors decided to give some recommendations in the form of determining the path of PB creation, by defining the individual organizational and financial frameworks of this undertaking. To this end, several important threads should be resolved according to the city's interest:

1. Determining the amount of available financial resources for the implementation of all tasks under PB. Too little financial resources can have a negative impact on the level of trust in local administration and the quality of social capital. The upper limit should depend on the city's affluence and financial policy.
2. Determination of the impact area of the participatory budget in the city: are all projections to be implemented at the city-wide level? or is there justification for the implementation of micro-local (district) projects?
3. In the context of the above point, rules should be set for sharing funds between city-wide projects and micro-local (district) projects.
4. Setting rules for projects' submission, evaluation criteria and voting rules.
5. Defining the rules for project selection. It takes place by voting, but it is possible, for example, to introduce weights, multipliers that can draw the residents' attention to issues that are important according to the opinion of the city authorities.
6. Determining the tools of promotion and implementation of the promotion policy.
7. Defining the rules for the implementation of selected projects.
8. The most important issues to be considered in order to effectively implement the participatory budget include:
  - The choice of investments to be implemented within the budget – they should be as close as possible to the population (e.g. district);
  - The process of preparation of the participatory budget should be planned in detail and start well in advance in order not to act under time pressure;
  - The representatives of local groups should be involved in preparation of the participatory budget;
  - It is necessary to systematically monitor the representatives of local groups involved in implementation of the participatory budget. If an overrepresentation or underrepresentation of any group occurs, adjustments should be made;
  - It is necessary to involve in the substantive part of budget preparation a person with good knowledge of the financial situation of local government units who will take part in decision making;

- Councillors and civil servants should be engaged in the process of preparing the participatory budget from the very beginning, starting from preparation of the plan of work;
- The success of the project depends largely on the involvement of councillors, so it is important that they are personally involved as moderators of the neighbourhood debates or settlements;
- All decisions regarding preparation of participatory budget should be made public along with their substantiation. In particular, substantiation is necessary, if there has been a change in previous findings. Transparency of decisions is a condition for trust and cooperation within the project;
- When preparing materials for residents, it is necessary to ensure the clarity of language and avoid formulating expressions who may make it difficult to understand the problem;
- The composition of the team, which is responsible for preparation of the citizens' budget, division of tasks and contact details should be made public, so that interested parties can keep their comments/suggestions on the project at hand.
- Any disputes or discrepancies related to the establishment of investments/priorities to be implemented should be made public;
- A timetable should be prepared for decisions and measures to be taken in order to prepare a draft budget;
- From the very beginning of works on a civic budget, efforts should be made to evaluate the project in order to reach conclusions at the end and use them in subsequent editions.

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<http://budzetyobywatelskie.pl/>

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