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JEL Classification: K40, K49

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**PROBLEMS OF DIFFERENTIATION OF DISCIPLINARY AND
ADMINISTRATIVE RESPONSIBILITY OF STATE CIVIL SERVANTS IN
RUSSIAN FEDERATION**

Received 05 September 2020; accepted 15 September 2020; published 20 September 2020

Abstract. *The article deals with the problems of applying disciplinary and administrative liability measures to state civil servants. The issues related to the need to improve the legal regulation of these institutions are revealed.*

Keywords: *civil service, civil servant, responsibility of civil servants; administrative responsibility, disciplinary responsibility, official responsibility, official duties, regulations.*

Reference to this paper should be made as follows: Mayurov, N.P.; Martyniuk, D.A. (2020). Problems of differentiation of disciplinary and administrative responsibility of state civil servants in Russian Federation. Economics and Finance, Volume 8, Issue 3, 4-9.

Introduction

The civil service is one of the main institutions of organization of absolutely all modern societies, regardless of the socio-political system and the type of state structure. It can be noted that the civil service plays a crucial role both in the structure of national power and in the implementation of socio-political, financial and other reforms carried out by all branches of government in the Russian Federation.

The Institute of public service in the Russian Federation is currently undergoing reform, and one of the goals of improving this Institute is to provide scientific justification for methods of improving discipline for more effective management of civil servant behavior. One of the most effective legal means to improve the level of discipline is the application of liability measures for violations committed by employees.

State civil servants bear various types of responsibility: criminal, administrative, disciplinary, material and civil law. However, it is disciplinary responsibility that is the mechanism aimed at the most effective maintenance of law and order in the system of public administration.

Literature Review

Disciplinary responsibility is a type of legal responsibility that is implemented within the framework of protective legal relations. Its distinctive feature is that the

application of this type of responsibility to the guilty state civil servant is possible in the order of subordination by a higher state body (official) authorized to appoint the employee to a public position. The main features of disciplinary responsibility of state civil servants are its application in the order of subordination; a specific subject that simultaneously acts as an employee and a bearer of authority; the lack of systematic legislation on disciplinary responsibility, as a result of which both the norms of administrative and labor law are applied to state civil servants (Kostov, 2017; Mayurov, 2014; Mayurov, 2003).

Disciplinary responsibility of state civil servants is characterized by certain fundamental principles. The current legislation does not contain the concept and list of principles of responsibility of State civil servants. In legal science, there are general legal principles, such as the principle of justice, equality, recognition and respect for the rights and freedoms of man and citizen, which equally extend their effect to legal responsibility. It seems that the application of disciplinary responsibility to state civil servants should be based on strictly observed principles of legality, inevitability of disciplinary responsibility, reasonableness and justice, presumption of innocence, expediency of disciplinary punishment (Channov, 2018).

Despite the absence of a clear regulation of the stages of disciplinary proceedings in the framework of scientific research, a number of scientists, including us, call mandatory and optional stages. The mandatory stages should include the initiation of a case on a disciplinary offense, the basis of which is sufficient data indicating the signs of the composition of the disciplinary offense, and the reasons that need to be fixed by law – documentary information about the committed offense; internal audit; consideration of the disciplinary case and decision-making, as well as execution of the decision. As optional stages, it is proposed to consider the appeal of the decision and the early removal of the disciplinary penalty. In our opinion, this classification of the stages of disciplinary proceedings is the most logical and correct. For more information, see (Kandrina, 2017; Mayurov, 2005; Mayurov, 2008).

In turn, administrative responsibility of state civil servants today is one of the elements of the legal status of an employee, contributing to improving the quality of work of the state civil service, excluding persons who use their official position for selfish purposes, increasing the level of professionalism of employees, and therefore provides protection of the rights and freedoms of citizens and organizations whose rights, freedoms and legitimate interests are violated in the event of an illegal act committed by a state civil servant.

The main source of bringing this person to administrative responsibility is the Code of Administrative Offences of the Russian Federation of 30.12.2001 No. 195-FL, in the General and Special parts of which there are provisions regulating the procedure for applying sanctions to a civil service official (Code of administrative offences of the Russian Federation, 2002).

A state civil servant is a special subject of an administrative offense. This is due to the fact that for a number of illegal acts specified in the Special part of the Code of Administrative Offences of the Russian Federation, an official can be brought only if this act affects the interests of the civil service in connection with the performance of

the employee's official powers. At the same time, it can also act as a General subject when it commits an administrative offense, regardless of the position of a state civil servant.

Methods

The basis for bringing to administrative responsibility in the General sense for any category of persons is the fact of committing an administrative offense, which is expressed in an act-action or omission. In art. 2.4 of the Code of Administrative Offences of the Russian Federation that an official is subject to administrative responsibility if he commits an administrative offense in connection with non-performance or improper performance of his official duties.

Results

Recently, the scope of application of administrative responsibility to these subjects has been expanding. Code of Administrative Offences of the Russian Federation introduced new articles on administrative responsibility of officials, for example: Article 5.63 (violation of legislation on the organization of the provision of state and municipal services), Article 5.39 (refusal to provide information). Thus, the legislator expands the list of cases when administrative penalties are applied for violating the duties of an employee, that is, official misconduct is transferred to the category of administrative offenses, and we believe this is correct, especially from the position of today.

A civil servant is subject to administrative responsibility if he commits an administrative offense in connection with non-performance or improper performance of his official duties, as a result of which the rights and interests of citizens and legal entities are violated. However, given the fact that the legislation provides for an extensive list of grounds for bringing state civil servants to administrative responsibility, this phenomenon is extremely rare in legal practice compared, for example, with disciplinary penalties (Medvedev, 2017).

Disciplinary and administrative responsibility quite often overlap and, within the framework of the institute of state civil service, disciplinary measures are more often applied. although administrative liability measures are more objective, civil servants are often limited to disciplinary actions only. and the possibility of applying an alternative punishment is due to the ambiguity of the provisions of the legislation.

Thus, article 2.4 of the Code of Administrative Offences of the Russian Federation specifies that an official is subject to administrative responsibility if he commits an administrative offense in connection with non-performance or improper performance of his official duties (Code of administrative offences of the Russian Federation, 2002).

And the provisions of article 57 of the Federal law "On state civil service of the Russian Federation" follows that for committing disciplinary misconduct, that is, for non-performance or improper performance of civil servants through his fault assigned to it official duties, a representative of the employer has the right to apply one of the disciplinary penalties:

- comment;
- reprimand;
- warning about incomplete official compliance;
- the dismissal (On the state civil service of the Russian Federation, 2004).

The application of both disciplinary and administrative responsibility for a violation depends on the official who applies it, which cannot indicate the effectiveness of the punishment. In this connection, you need to enter a civil servant in the category of subjects of administrative responsibility of the Code of Administrative Offences of the Russian Federation, as well as to determine the list of the offences of non-compliance individual state bans civil servants.

Thus, as part of the implementation of liability measures applied to state civil servants, the issue of competition between administrative and disciplinary measures against violators has emerged.

A special aspect of the question of the ratio of administrative and disciplinary responsibility in ensuring the rule of law in the state and municipal service is the ability of each of these types of responsibility not only to punish the offender, but also to perform a preventive function of not allowing persons who have committed sufficiently serious offenses (misdemeanors) to enter the state (municipal) service (Pyshkina, 2020).

The priority of applying disciplinary measures is due, in our opinion, to the fact that the application of administrative liability measures entails more significant consequences. However, to date, the law does not determine which type of legal liability is more subject to application in the performance (non-performance) of the duty assigned to a state civil servant, which allows the employer to assess the offense individually. This approach is not always able to ensure a fair and effective impact on the violator. The employer's own discretion in the matter of bringing to this or that type of responsibility does not always correspond to the signs of objectivity and allows some selectivity. This implies the need to publicize decisions made within the framework of the application of the institute of disciplinary responsibility. In this case, when exercising their powers, the power subject will not be able to show loyalty to some violators and be excessively strict with others (Mukoseeva, 2019).

Discussion

Both administrative and disciplinary responsibility are necessary mechanisms implemented within the framework of the Institute of public civil service, each of which has certain goals and consequences of application. To date, the mechanism of the disciplinary liability objectively requires the specification, as evidenced by:

1. No special legal act regulating matters of disciplinary liability of civil servants in the Russian Federation shall entail the problem of the right use of mechanism such liability.

2. The possibility of the subject of disciplinary power to exercise its powers through the application of an alternative type of punishment entails the bias of the sanctions applied, and, as a consequence, the ineffectiveness of this type of punishment.

3. The absence of elements of publicity in the application of disciplinary measures by the power subject against the violator – a state civil servant.

4. The absence of legally established principles of disciplinary responsibility of civil servants, including the principle of legality, humanism, individualization of disciplinary responsibility of civil servants and punishment, the expediency of disciplinary responsibility, the inadmissibility of double responsibility for the same offense, and the inevitability of disciplinary responsibility.

5. The absence of a closed list of disciplinary actions, as well as provisions on the financial responsibility of state civil servants.

6. The absence of a standard procedure for bringing a state civil servant to disciplinary responsibility, which deprives the violator of the right to an exhaustive, objective and comprehensive assessment of the circumstances of the disciplinary case.

7. The absence of a legally established list of grounds for refusal to initiate a disciplinary case or its termination.

Conclusion

Thus, despite the existence of various penalties and punishments applied to civil servants, the ultimate goal of state coercion is to achieve a positive version of public administration without applying any administrative measures at all. Having considered the problems of applying measures of responsibility for violations within the institutions of administrative and disciplinary responsibility of state civil servants, we can conclude that there is a need for normative improvement of these institutions. First of all, innovations are necessary in terms of applying the mechanism of disciplinary responsibility of employees, including expanding the list of disciplinary penalties and detailing the disciplinary procedure. Administrative and disciplinary responsibility should not be opposed, however, when implementing measures of responsibility, the power subject must have an objective, normative and reasonable idea of the division of types of misconduct and violations that fall under certain measures of influence.

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IMPLEMENTATION OF ACCOUNTING OUTSOURCING IN THE ENTERPRISE INFORMATION SPACE

Received 12 September 2020; accepted 19 September 2020; published 26 September 2020

Abstract. *There are formed a structure chart of the accounting outsourcing conceptual bases and highlighted the definition, goals, tasks, functions, principles and resource support. There are identified the components of the current state valuation, advantages and disadvantages of accounting outsourcing introduction in a dynamic business environment. The main advantages include: objectivity and impartiality, continuity of accounting, quality of service staff, the ability to focus on the main business processes, the use of ready-made advanced technologies, high quality of received services by the outsourcer, protection of confidential information, etc. In this case, the disadvantages may be: the liquidation of the outsourcing company, low efficiency, absence of management accounting, decrease in the quality of service delivery through the internal troubles of the outsourcer, etc.*

Key words: *accounting outsourcing, services, qualification, expenses, business environment.*

Reference to this paper should be made as follows: Ojo, K.O. (2020). Implementation Of Accounting Outsourcing In The Enterprise Information Space. Economics and Finance, Volume 8, Issue 3, 10-16.

Introduction

Every day the improvement of the management system has an increasing impact on improving the performance of commercial activity at the current stage of the world economy development. Applying the latest methods of enterprise management on the terms of delegation of authorities is one of the ways to get significant results in business.

Economic transformation and high level of competition between economic entities have a significant impact on the fact that enterprises are increasingly using accounting outsourcing in the practical activity. Companies delegate the accounting functions to specialized agencies, in the state where there are highly qualified specialists. The goal of such actions is to make rational use of available resources and focus on the main activity type as a priority.

This gives grounds for stating the relevance of the studied issue in the current realities.

Literature Review

Agburu, J. I., Anza, N. C., & Iyortsuun, A. S. (2017), Chaplin, S. (2017), Guragai, B., Hunt, N. C., Neri, M. P., & Taylor, E. Z. (2017) and others have devoted the research works to theoretical aspects of accounting outsourcing.

Cullinan, C. P., & Zheng X. (2017), Fernandez, D., & Aman, A. (2018), Asatiani, A., Apte, U., Penttinen, E., Rönkkö, M., & Saarinen, T. (2019) studied outsourcing issues in the context of conclusion of agreements by enterprises with outsourcing firms, namely, responsibility for disclosure of trade secret, margin of discretion, etc.

Taking into account the significant contributions of scientists to the development of this topic (Islam, M. A. (2017), Lacity, M., & Willcocks, L. (2017)), remain open the questions of a unified scientific approach justification to the consideration of the accounting outsourcing mechanism and the search of effective ways of the practical use by business entities.

Methods

The purpose of the work is to study the conceptual foundations and features of practical implementation of accounting outsourcing.

Results

The modern accounting outsourcing market allows enterprises to engage in the main mission, giving business accounting and tax statement to professionals. For example, in Europe 86 % of small and medium-sized businesses companies use the services of outsourcers, in the United States- 92 %, in Israel – 96 % (Fernandez, D., & Aman, A. (2018)).

First of all, these companies outsource the calculation of salary and tax burden. In these countries, tax legislation is quite complex, so requires high professionalism and deep specialization of the outsourcing firm accountants. Also, the accounting outsourcing market is developing quite rapidly in the Asia-Pacific region, in particular in India and China.

In the United States and Europe, companies that use accounting outsourcing receive additional funds to finance the needs of the company's main mission.

In these countries, this is what led to the disappearance of the accountant position in firms, since all the functions are transferred to a third-party organization. The latter help in keeping records not only for legal entities, but also for ordinary citizens, because the vast majority of outsourcing firms have a high reputation.. According to statistics, 40 % Americans trust such firms to compile tax declarations.

The purpose of outsourcing is to increase the value of the company in the market by increasing the activity efficiency, reducing costs, risks, and strengthening the positions of products in the market by attracting new contractors who are engaged in non-core business activity for the company. Reducing costs and therefore tariffs for outsourcing services contributes to the niche specialism, which makes possible to get a lot of experience in the implementation of business processes, the introduction of innovative technologies, and new methods development of organizing work. Thus, using outsourcing is more efficient and rational than performing the same work themselves. However, this is possible only if outsourcing is used economically sound and rationally.

Generalized structure chart of the conceptual foundations of accounting outsourcing organization is presented in Fig.1.

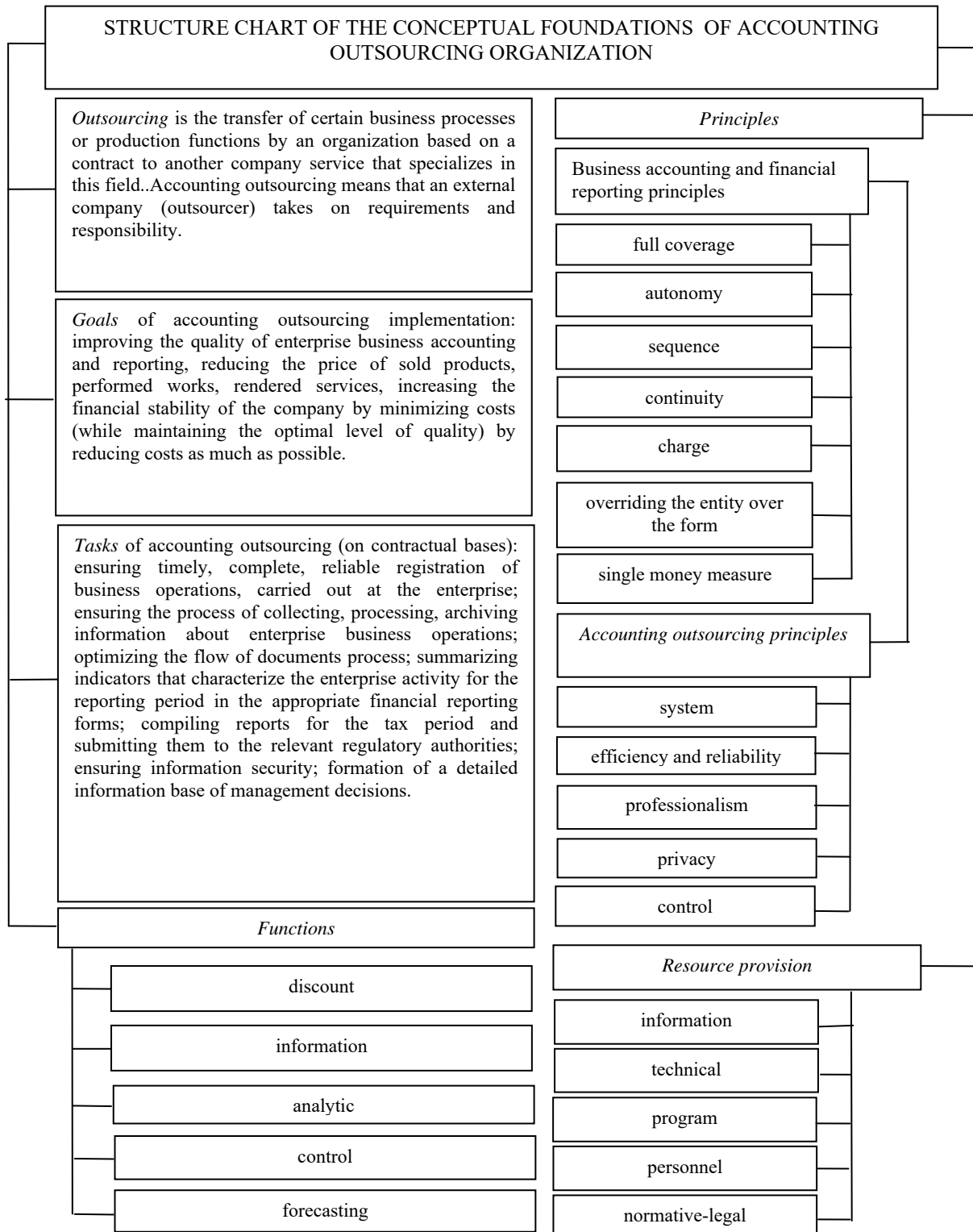


Figure 1. Structure chart of the conceptual foundations of accounting outsourcing organization (compiled by the author)

The distribution of responsibility between the outsourcing firm and the enterprise-customer of the services should be in accordance with the terms of the contract for the provision of business accounting services taking into account the following proposals: write in the contract for the provision of business accounting services a separate provision or item “Liability for material injury”, it should include liability for mistakes in accounting, late payments to contractors, fiscal authorities, etc; develop a schedule for which the company, which is the customer of the outsourcing company’s services, will deliver basic documents, with a clear indication of the timing of sending feedback.

Debatable nature of accounting outsourcing and the absence of scientific literature on this issue do not allow to form a clear classification by which it can be considered. There are indentified the outsourcing types in accordance with the priority classification features based on the results of scientific works, on Figure 2.

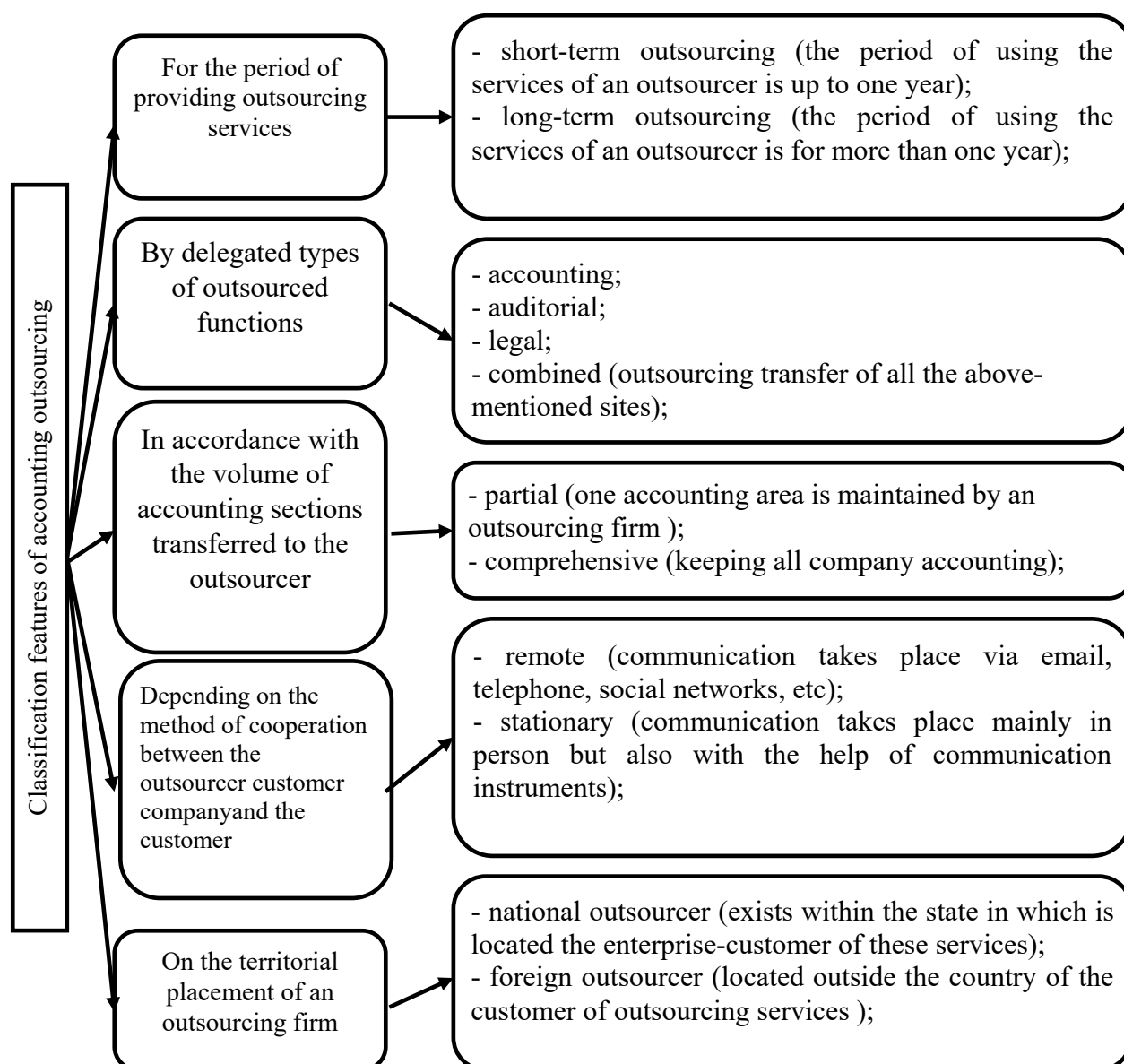


Figure 2. Classification features of accounting outsourcing
(compiled by the author)

The decision-making process for enterprise outsourcing should consist of the steps shown in Figure 3.

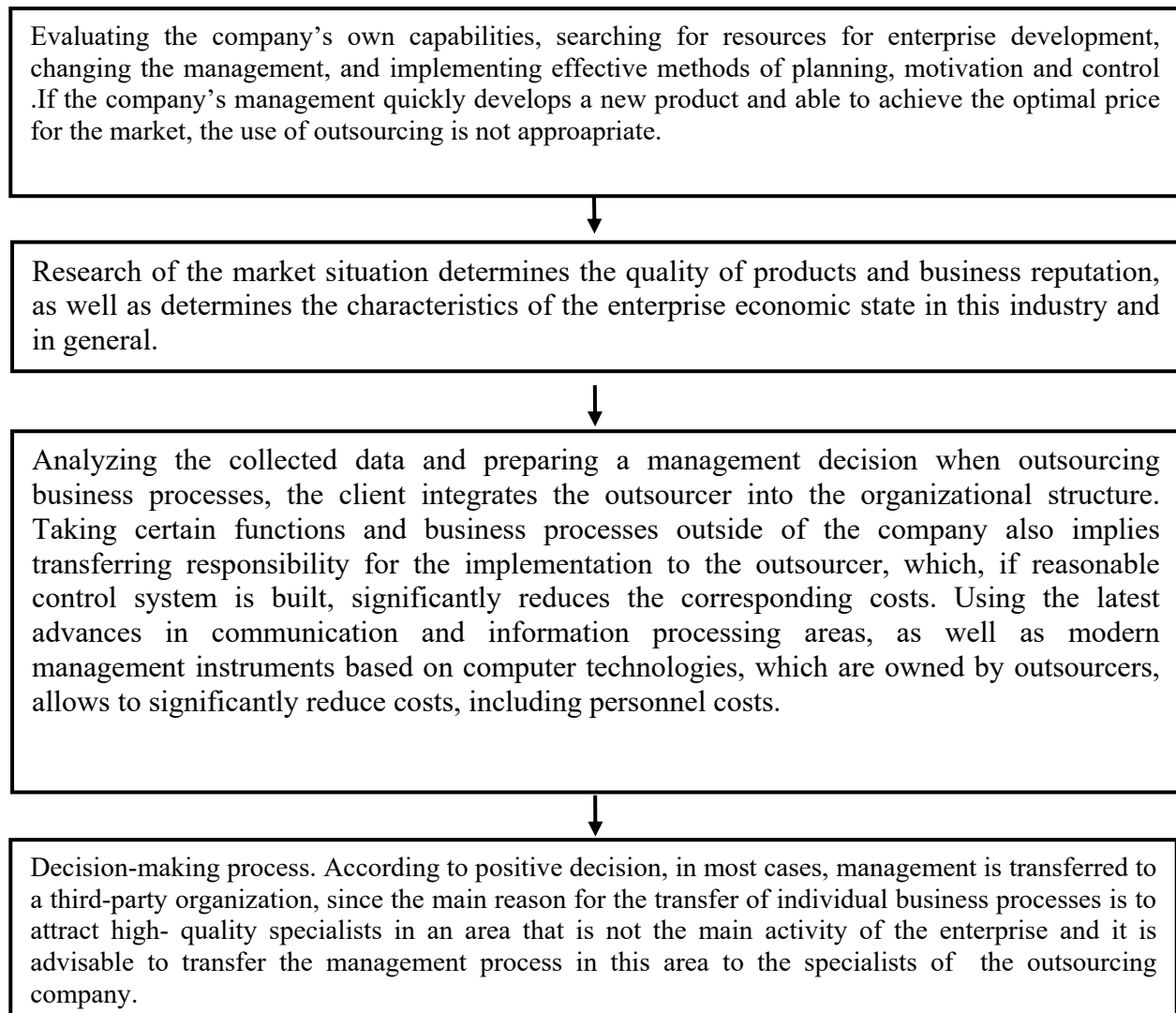


Figure 3. The sequence of decision-making on the company's transition to outsourcing (compiled by the author)

It is extremely important to find a bona fide outsourcer. Three or five are the most suitable of the many such companies. It is necessary to analyze the companies that are currently on the market, paying special attention to the key factors: reputation, reliability, experience of successfully implemented projects, positive user reviews, etc.

Also important is the ability of the outsourcer to quickly adapt to the peculiarities and specifics of the company's activity.

Discussion

The professional level of employees of such company should be at a high level, this should be confirmed by the available certificates and periodic passing of employee ratings, professional development, etc.

Any company can do without an accounting department. All firms, regardless of the organizational form, should submit properly executed reports to the supervisory authority on time. The accounting department should reflect business operations in a timely manner and provide top management with operational information that is necessary for decision –making. It is necessary to involve only highly qualified, competent specialists, who are perfectly versed in the specifics of the enterprise activity. If you hire a non-qualified employee, the price of such decision can be quite high. More and more companies are turning to the possibility of outsourcing accounting services for these reasons. Using this opportunity frees the company from the need to hire employees, check the professional level and competence.

Conclusion

We believe that for an optimal choice that guarantees the success of an outsourcing project for providing accounting services, it is necessary to carefully approach the choice of an outsourcer. It is advisable to take into account the following factors when preparing a list of potential partner companies in addition to the cost criterion (price of services, discounts):

- experience of previous projects (especially if you have clients working in the same field of activity);
- positive reviews and stable enterprise development (it is quite easy to find information using the Internet, but it requires careful verification due to the possibility of writing positive reviews to order; that is why the sustainable development of the company is crucial in recent years;
- flexibility and the ability to respond quickly to changes in the company's activity that is the customer of services (of course, the outsourcer should respond quickly to changes in legislation, because without this it is simply impossible to maintain records).

However, when choosing a partner, the customer company should pay attention, first of all, to the possibility of responding to changes in the activity – expanding the types and increasing the activity volume, etc.

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JEL Classification: Q21

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**THE ANALYSIS OF EXISTING INCENTIVE SYSTEMS
FOR THE PERSONNEL IN THE ENTERPRISES**

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Abstract. *It is necessary to develop all three priority factors of production in order to carry out effective activity of enterprises. But it is the personnel, as an important factor of production that is the link between the nominal and current capital in the labor process. The work indicates that effective personnel management requires a radical increase in role of labor incentives. In the practice of personnel management, there are many approaches to building systems of motivational management, incentive mechanisms that are aimed at implementing the goals of the business entity functioning. The work analyzes the justification of theoretical and practical results of researches in the field of incentive, to find the correlation between employee behavior and the results using motivational management instruments.*

Keywords: *incentive, personnel management, labor productivity, freelancer, team-building.*

Reference to this paper should be made as follows: Nudayat, A. (2020). The analysis of existing incentive systems for the personnel in the enterprises. *Economics and Finance*, Volume 8, Issue 3, 17-22.

Introduction

One of the main sources of increasing the effectiveness of enterprise performance indicators is effective personnel management. The formation of strategically important competitive positions of enterprises in the world market requires the search for new approaches to enterprises management based on the study of the European countries experience, which makes it possible to form the vision of an effective economic mechanism for personnel incentive, which affects the efficiency of the enterprise as a whole and provides an increase in labor productivity level.

Priorities changes in work motivation and sources of income-producing, the loss of connection between motivation and getting eventual outcome occurred due to the lower cost of labor power, availability of differentiations of employee compensation with different qualification.

Thus, the formation of an improved economic incentive mechanism for enterprises personnel to ensure the effectiveness of the work in the long term is particularly relevant, which will create new conditions for development and increase the competitiveness.

Literature review

Theoretical and methodological foundations of personnel incentive started by foreign scientists, classics of market economy: C Li, L. (2017), Tong, L. (2017),

Zhao, C. (2017) who developed general approaches to the motivation theory, mechanism for rewarding employees for achieving the production goals.

Among the studies that highlight certain aspects of the problem, it is necessary to highlight the works of A Chen, A. (2019), Ma, Y. (2019) and so on, who proposed systems of motivational management, aimed at implementing the goals of the business entity functioning in various sectors of the economy.

Methodological issues and analysis practice and labor evaluation occupy one of the most important places in the researches of the motivational mechanism effectiveness, which have been conducted by Jiang, Z., Li, D., & Zhou, Y. (2018), Liu, X. (2018), Gao, Y. (2019).

However, despite a number of existing scientific developments, the problem of forming an effective economic mechanism for personnel incentive of enterprises requires further scientific developments. The relevance of the research topic is also confirmed by the need to substantiate scientific-practical recommendations for improving the economic mechanism and methods for evaluating the personnel incentive effectiveness. All this determined the choice of the work topic, determined the target orientation, outlined the goal and tasks.

Methods

The purpose of the work is to substantiate theoretical-methodological approaches and develop scientific-practical recommendations for the formation of a system for evaluating personnel incentive of enterprises.

Results

Despite the effectiveness and universality of monetary incentive, limiting the motivation system only to material incentive does not give the company desired result. In practice of personnel management, there are cases when employees with the same position in the service hierarchy receive different financial incentive, which is most often calculated based on performance results – data on results are usually available to top management.

This all causes discontent and disturbs the balance of the socio-psychological climate of the labor collective, so it is necessary to use moral compensation and introduce a balancing factor, which is the means of non-material incentive.

Methods of non-material incentive can be: non-targeted – the presence of a social package, holding joint corporate events of the enterprise.

Effective non-material incentive is based on a whole complex: employee self-motivation, opportunities to express themselves in various aspects of the company's life- social, public assignments, creativity, behavior in the workforce, etc.

Non-material incentives can be divided depending on the impact on the specific structure of the person on the socio-psychological and organizational. Social incentives are based on person moral values, understanding the value and usefulness of work.

Consider the list of fixed assets of non-material incentive:

- socio-psychological means: awarding for invention, labor achievements, motivation by goals, representation of the company at exhibitions, fairs, providing cultural and sport events, creating a favorable socio-psychological climate, social contacts, useful, interesting, creative work, self-realization, stability, effective social policy, etc.

- organizational means: possibility of occupational advancement- the formation of a personnel reserve, humanization of labor- work enriched with meaning, establishment of favorable working conditions, rationalization of work and rest regime, improving corporate culture, stimulating free time, convenient work schedule, awareness of the company's activity, delegation of duties, rights and responsibility, organization of feedback between managers and staff.

Using effective team-building (team-building): conducting trainings, organizing corporate events with the involvement of employees' families. Team-building as a social-psychological means of stimulation consists of 3 stages:

- formation and development of team skills (team skills) – harmonization of the general goal with the personalization goals;
- taking responsibility for the team's results;
- situational leadership and flexible change of style in accordance with the specifics of performed tasks;
- constructive interaction and self-government;
- making a single team decision and coordinating with team members;
- formation of team spirit (team spirit): strengthening the sense of unity, forming a stable sense of "we";
- development of trust between employees, understanding and acceptance of each other individual features, creating motivation for joint activity;
- implementation of the experience of highly effective joint actions, increasing the informal authority of managers;
- development of loyalty of program participants towards the organization);
- formation of team –building (team-building): distribution of roles in the team for optimal achievement of results; formation of a new structure during merger, acquisition, and restructuring of enterprise;
- creating the working environment in the formation of project teams;
- establishing horizontal relations within the team, regional divisions.

The company's social policy is also an effective means of socio-psychological staff incentive.

First, benefits and guarantees are being implemented within the framework of the staff social package: social security insurance for old age, temporary disability, unemployment, established at the state or regional level.

Secondly, enterprises provide the employees and the family members with additional benefits related to elements of material incentives at the expense of funds allocated for these purposes from the organization social development funds, namely, providing mortgage, funds for children's education and recreation, improving food conditions, recreation, corporate children institutions).

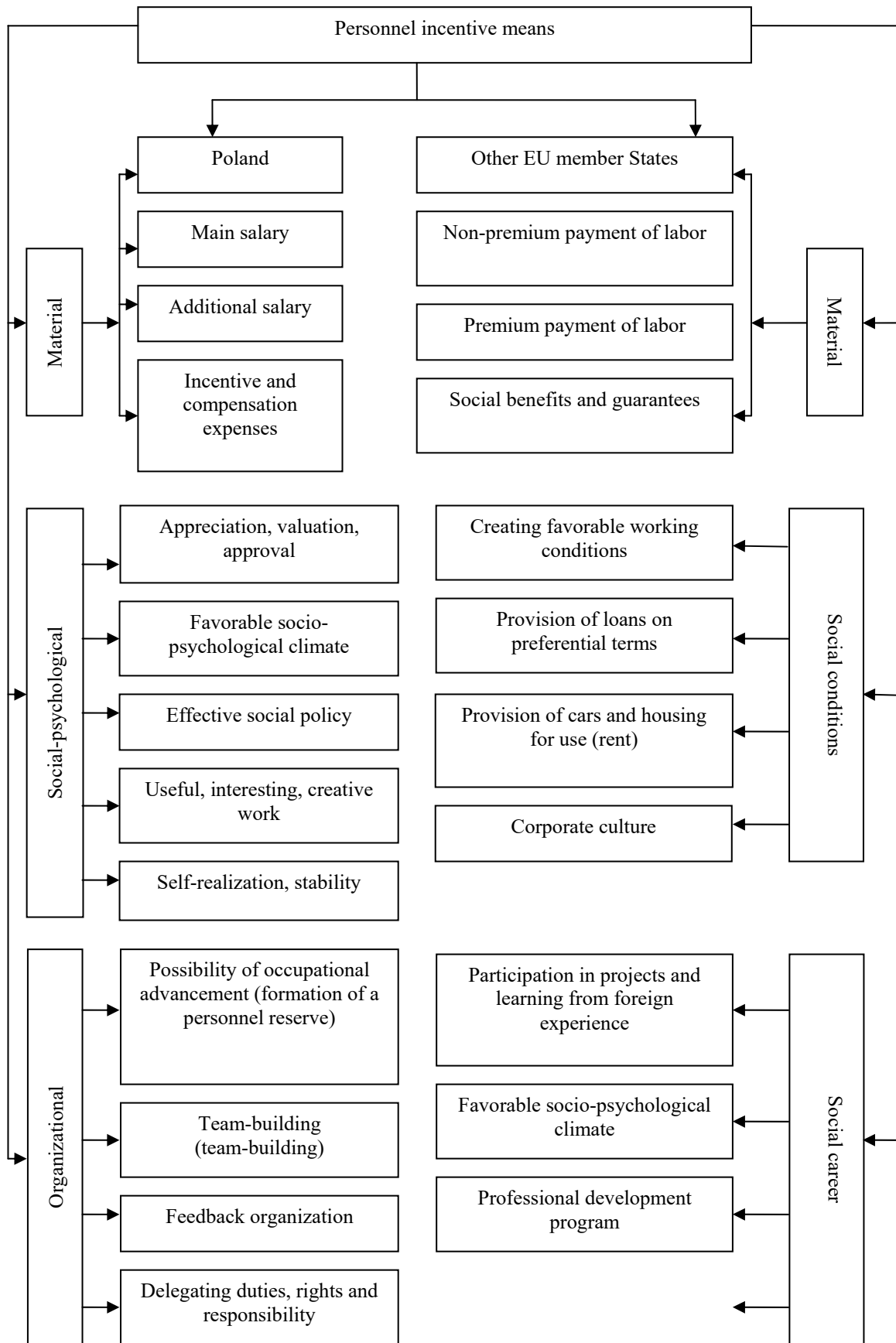


Figure 1. Comparative characteristics of enterprises personnel incentive

Let's take a closer look at some of the organizational means of non-material incentives introduced in enterprises.

Improving occupational hygiene factors – working conditions:

- creation of comfortable working areas taking into account modern methods of labor organization – ergonomics, in particular, air conditioning, heating of premises, rationalization of the workplace, etc;
- providing staff with the latest technologies – program software that simplifies work and reduces physical stress by automating processes;
- reducing the number of employees engaged in works with harmful working conditions (barometric pressure, industrial noise, ultrasound, infrasound, local and general vibration, chemical factors, the severity and intensity of work.

Organization of feedback is also an effective organizational means for incentives – every employee can participate in the management and organization of labor. Creating a personal website with a special category or internal mail will help personnel make suggestions, suggest methods and ways to solve important tasks for the enterprise development.

We will conduct a comparative analysis of personnel incentive means in the EU member States (Figure 1).

The personnel incentive models of EU countries- enterprises do not provide a block of moral incentives, but mainly reflect material, socio-material, natural and social career incentives.

According to the study results, can be drawn the following conclusions: material incentives are radically different, there is no organizational incentive in the EU countries – but presented a wide range of social incentives, aimed at creating social conditions for personnel activity and ensuring the social career of each person.

The means of non-material incentive have a particular importance for service companies in recent years that allow in the modern conditions of the information society to use new forms of staff work, in particular freelancer, which is beneficial for both the employee and employer.

The advantages of being a freelancer for employees are the following: working in a convenient place, a high degree of self-development, saving travel and food costs, and work motivation – the desire to complete work faster.

Discussion

This type of personnel recruitment has the following advantages for an employer: reduced office spaces and utility rooms, reduced costs for utility payments and expenses for personnel social packages, unlimited opportunities to attract personnel on weekends, holidays without additional fees, multi-functionality. However, there are disadvantages for the employer: first, there is no personal contact between the employee and employer, so it is necessary for the freelancer to be organized and disciplined.

Secondly, for companies that use organizational incentive in particular, the formation of corporate culture, team building and client-oriented value system, it is

necessary to develop other measures for freelancers, because when working with freelancers, this becomes impossible.

Conclusions

It is necessary to develop an incentive mechanism in order to increase the competitiveness and labor productivity, that successfully combines and complements the means of material and non-material incentive, which will help the employee to form certain stereotypes about the usefulness of the chosen type of activity, the prospect and the possibility of obtaining advantages for themselves and for society as whole.

It should be noted that the promotion of labor activity is carried out on two levels at the same time: first is the stimulation of each person, second is the stimulation of the entire team of employees as a distribution of synergetic effect. The manager should identify incentive means in order to increase labor productivity at both levels.

The HR manager should create an effective incentive system as a part of the HR management system. Thus, the labor stimulation involves the creation of conditions under which active labor activity becomes a necessary condition for meeting the significant and socially determined needs of the individual, formation of the motives to work.

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JEL Classification: Q21

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**WHAT TYPE OF INVESTMENT DOES DIGITAL FINANCE PROMOTE:
SPECULATIVE OR NON- SPECULATIVE?**

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Abstract. *This study was set to investigate the elasticity of digital finance to foreign investment correlates in Nigeria. The quest was triggered by the need to determine whether or not foreign flows act as enablers for the development of digital finance. To determine the order of integration and ensure the stationarity of the variables used, we performed the traditional Augmented Dickey-Fuller (ADF). Using web based transaction value as a proxy for digital finance, the baseline ARDL estimates show that foreign investment flows proxied by FDI, FPI and Loans act as drivers for digital finance. Web based transaction was found to be a positively significant function of foreign portfolio and foreign loans with different coefficient of elasticity. Foreign direct investment on the other hand did not significantly affect the dependent variable over the studied period. We established cointegration following Pesaran, Shin and Smith (2001) test for cointegration by using the Bound Test results. The coefficient of the Error Correction Mechanism (-0.22) is negatively significant, which implies that 22 percent of the errors in the model are corrected annually. The ECM suggests that web based transactions adjust to the speed and dynamics of investment drivers in Nigeria within the studied period. FPI and Loans were significant. Digital finance is promoting FPI and not FDI which is not healthy. Government should review her policies on investments and pay attention to essential ingredients for boosting investments in Nigeria like ease of doing business, security and corruption.*

Keywords: *Financial stability; Investments; Digital Finance; Nigeria.*

Reference to this paper should be made as follows: Okoyeuzu, O. (2020). What type of investment does digital finance promote: speculative or non- speculative?. Economics and Finance, Volume 8, Issue 3, 23-31.

Introduction

Globalization and liberalization have become engines of economic development. (Guichard, 2017) Similarly, development in financial technology has equally advanced investments across the globe. Owing to all these, there is an increase in the flow of capital across the world. Invariably, foreign capital inflows have become a good source of funds towards nation building. Foreign inflows are channels through which countries have access to foreign capital in form of foreign portfolio investments (FPI), loans and foreign direct investments (FDI) (Koepke, 2015).

Various governments appreciate that there are associated benefits to attracting foreign financial capitals. Developing countries need foreign capital to augment their domestic investments. These investments are needed for an improved economic growth which translates into an enhanced standard of living (Swarnali, 2018). Foreign capital flows are crucial in developing countries as a funding alternative to businesses that ordinarily face financing challenges. Various firms can attract external funding and loan facilities from other Markets other than domestic Markets. Foreign fund flows play a major role in complementing domestic investments.

Foreign Direct Investment (FDI) also helps in human capital formation as a result of technology transfer. Capital fund flow is equally helpful as its contribution towards economic development further alleviates poverty.

Many developing countries have endeavoured to attract foreign capital flows as a substantial source of investment. Therefore, they developed many incentives to actualize this. (Ahmed, and Zlate, 2014). For instance, countries have offered investors reduction of import duties on capital goods, tax holidays and exemptions. As further attempt to attract FDI and FPI, governments in various countries developed different strategies. For instance, attention has been given by the Nigerian government on import duty exemptions, offering tax holidays and many more. Similarly, the development of both the financial institutions and Capital Markets remain a good incentive towards promoting portfolio investments (Alonso, 2015). The unique feature of FDI is that it delivers packages of resources, like, capital, technology, skills, management know-how, and marketing capabilities, along with production activities, to a host economy.

However, capital fund flows are known to be volatile (Pagliari, and Hannan, 2017). Fund flows are associated with portfolio reversals due to financial shocks. Such reversals are unpredictable. consequently, it impacts negatively on growth especially for less diversified developing countries that relies on such investments. It can further lead to a sudden exchange rate depreciation. Prices of imports may be pushed upwards as well, resulting in a crash in exchange rate affecting purchasing power of the poor households (Adler, Djigbenou and Sosa, 2014), when a country is facing devaluation of her exchange rate, the country's external debt profile is heightened compelling the government into cutting back public spending as an option towards servicing debt obligations. Conversely, spending on health and education are compromised due to deductions in public spending (Acharya, et.al, 2016). Reduction of public expenditure has far reaching implications. For instance, it negatively affects human capital development and many remain in poverty trap. Worrisome is the fact that due to the volatile nature of foreign fund flow, most developing countries cannot be certain of availability of resources needed to realize a sustainable developmental strategy (Ahrend, Goujard and Schweltnus, 2012). Digital development has been identified as one of such key strategies.

The application of internet-based digital technologies are becoming an ever more important part of the global economy. Recently, the adoption of digital economy has remained a key objective for many developing countries. Policy measures to promote investment proposed in digital development strategies tend to focus on incentives and improving digital standards. The digital economy is crucial to development and growth as it can boost competitiveness across all sectors. Financial innovations provide wider opportunity for businesses and new avenues for accessing foreign investments. For developing countries especially, digital finance has important implications for investments. The adoption of digital financing has both positive and negative impacts. It facilitates Capital flows from rich to poor countries and this is good news for developing countries attempting to bridge the investment gaps. On the flip side of it, weak regulatory issues may work against host countries as

investors withdraw their investments at will especially during financial crisis. The openings and challenges linked with the digital economy are particularly vital for developing countries.

In Nigeria, the inflows from FPI and bank loans were on the increase since the 90s. The development of the capital markets must have contributed to that. The federal government internationalized the market in 1995 after its deregulation in 1993. The internationalisation of the market was part of financial liberalization policy in the mid 2000 attracting foreigners to participate in the market extensively (CBN, 2006). The Nigerian economy through the capital market experienced increased inflows of FPI making this investment the centre stage (Uwubanmwun, & Ogiemudia, 2016). Besides the liberalization of the market, the activities of institutional investors remain an active ingredient in driving foreign flows. These institutional investors not only increased their share of company listed on the stock markets but equally, invested in other emerging markets.

Fund flows from FPI remained very high until about 2008 after the global economic and financial crisis. Fund flows from FPI into Nigeria decreased drastically. Efforts have been made to investigate the drivers of capital importation. Studies have taken note of macroeconomic, political factors and domestic financial development. (Hannan, 2017). While these factors might be some of the plausible drivers of capital importation in Nigeria, one area that has been neglected in extant literature is developments in financial technology. In this study, we re-examined the drivers of investment paying attention to digital development. Thus, what type of investment does digital finance drive? we are unaware of how web based transactions affect the country's foreign capital inflows. Consequently, policymakers lack information about how the digital environment shapes foreign capital and FDI in particular. This is important given the various efforts in attracting foreign capital.

Our study makes an important contribution to already existing literature in capital fund flows by adding an empirical analysis based on digital financing. The market participants may consider this study as an important tool in appreciating investment structure in a developing country. This study equally provides a prime opportunity for policy makers in developing countries to appreciate the urgency in facilitating the core drivers of foreign investments so as to improve their economies. Another motivation of this paper is to reconcile theories with practical reality, using the web based transaction which is expected to promote foreign investments. Further motivations for this study is on the need to moderate the level of vulnerability of foreign flows thereby achieving economic development agenda of Nigeria. It is believed that a deeper insight on the type of investments digital finance drive are critical for targeted policy. We considered Nigeria as one of the big economies in west Africa. The research findings from Nigeria will constitute a lesson for other developing countries.

The remaining part of this paper is structured as follows: Next section looks at literature, Section three presents the data and methodology adopted in the study, while section four discusses the findings and the policy implications of this study. Section five concludes with a highlight on the implications of the study.

Literature Review

Investments in different bundles of assets in another country is referred to as portfolio investment. Most developing countries run deficit budget. This limits their investments and conversely growth. The desire to bridge this gap is often fulfilled with fund inflows from other countries other than domestic financing. Foreign loans, FDI and FPI have played a vital role in mitigating the shortfall in investment due to insufficient funds. (Ekeocha et.al, 2012). Direct investment is structured in a manner that the investor is designed to have the right to participate in the management of the organization the investment is channelled to. FDI complements domestic investments, contributes to the growth and development of many developing countries (Ekine et.al, 2019). This is owing to some distinctive aspects of FDI like its associated benefits of transferring not just capital but also technology and skills. FDI to a host economy has translated into capacity building and structural change by upgrading the local industries. FDI has the potential to develop products that are not just for domestic consumption but also for exports. Product exports provide linkages that strengthens domestic firms and promotes employment and well fare of the citizenry. A major benefit of FDI is raising the labour and environmental standards and contributing to poverty alleviation (Hoggarth and Reinhard, 2016). However, for the purpose of this study, we are considering FDI at the point of entry.

Investments are diversified to obtain an optimal risk return trade off. Essentially, both individual investors, and various multinational companies are interested in forecasting and managing their portfolios to increase their wealth. (Duruechi & Ojiegbe, 2015) In developing countries, FPI is measured as a significant variable to promote foreign exchange to finance current account deficit and bridge the savings investment gap. In Portfolio investment, the attention of the investors is geared towards purchasing short term financial assets. These investments are known to be extremely volatile. The volatility nature of FPI can impact negatively on the host country as portfolios get reversed. The associated risks of investing in FPI become more as many developing countries receive more flows from it. FPI is considered as speculative in nature due to its reversal nature and could be withdrawn from the market at a short notice. This is unlike FDI which is non speculative.

Factors like country-level, industry-level and firm-level determinants have been documented in literature as drivers of foreign inflows. Similarly, inflow of FPI has been simulated by some global factors like interest rates, growth of industrialized countries (Byrne & Fiess, 2011). There may be variations in the pattern of capital inflows in developing and developed countries due to differences in economic and political structures.

Employing the use of annual data between 1981-2009, Solomon and Eka (2013) examined the relationship between Foreign Direct Investment, Foreign portfolio investment and economic growth in Nigeria. They submitted a positive but insignificant impact on the economy within the period of their investigation.

A study on Pakistan economy reveals a positive impact of FDI on economic growth (Muntah et al., 2015). They covered a period between 1995 to 2011. Similarly, the study on capital flows has remained a subject of discussion on

economic literature. From our review, the debate is inconclusive and our study further expands the literature by introducing digital technology in the debate.

Methodology

This study adopts the ARDL method due to its advantages over other regression and cointegration approaches; these include:

- Its efficiency in the face of not too large samples
- It is a dynamic model, and hence less prone to autocorrelation and other deficiencies common with other regression models
- Its ability to combine differently integrated majorly I(1) and I(0).

In the first stage, we will estimate following the ARDL baseline model:

$$webtrans = \delta_0 + \delta_1 FDI_{t-n} + \delta_2 FPI_{t-n} + \delta_3 Loan_{t-n} + \delta_4 EXR_{t-n} + \varepsilon_t \quad (1)$$

β_1 - β_4 are short run dynamic multipliers, β_0 the drift and ε_t are white noise errors.

Where:

WebTrans: Web Based Transaction

FDI: Foreign Direct Investment

FPI: Foreign portfolio investment

Loan: foreign loan

Exch: exchange rate.

Results

Basic Descriptive Statistics

The basic descriptive statistics as contained in table below exposes vital statistical properties of the series under study.

Table 1. Summary of Basic Descriptive Statistics of the Variables under Study

Variables	Mean	Standard Deviation	Minimum	Maximum
WebTrans	11.045	22.246	0.880	168.2
FDI	1.13E+08	9999	33649	4.68E+08
FPI	5.23E+08	5.06E+08	7688	2.17E+08
EXCHR	205.92	66.41	149.78	313.00
Loans	1.68E+08	1.41E+08	3289	149.78
Observations	108	108	108	108

Source: Authors' Computation

The descriptive statistics in Table 1 above shows the aggregative averages and the averages of spread and dispersion. It is obvious that FDI is the most volatile of all the variables. This suggests that the vicissitudes of the Nigerian economic environment prompts foreign investor to locate and constantly relocate their investment around the mean over time. Web transaction presents interesting characteristics as the deviation lies below the maximum, above the minimum and

fairly around the mean. This shows the predictable and systematic growth rate in the acceptability of web-based payment system in the Nigerian environment.

To determine the order of integration and ensure the stationarity of the variables used, we performed the traditional Augmented Dickey-Fuller (ADF) and the results are presented in Table 2.

Variable	ADF(stat)	Critical(0.5)	Order of integration
WebTrans	-25.033(0.001)*prob	-3.45	1
FDI	-8.98(0.001)*prob	-3.45	0
FPI	-4.24(0.005)*prob	-3.45	0
EXCH	-8.12	-3.45	1
LOANS	-10.007 (0.001)*	-3.45	0

The stationarity test results indicate that the variables have mixed order of integration falling between I(0) and I(1) which undoubtedly justifies the use of ARDL as a suitable estimation approach.

From the baseline ARDL estimates reported in Table 3 below, web based transaction was found to be a positively significant function of foreign portfolio and foreign loans with different coefficient of elasticity. Foreign direct investment on the other hand did not significantly affect the dependent variable over the studied period.

Table 3. Baseline ARDL estimates

Dependent Variable: LWEBTRANS				
Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LWEBTRANS(-1)	0.773705	0.057948	13.35171	0.0000
LFDI	0.057499	0.047323	1.215018	0.2272
LFPI	-0.070092	0.036798	-1.904762	0.0596
LLOANS	0.103722	0.054021	1.920037	0.0576
C	-1.15553	1.240280	-0.931676	0.3537

Source: Author’s computation ARDL Autoregressive distributed lag 0.05*

We establish cointegration following Pesaran, Shin and Smith (2001) test for cointegration by using the Bound Test results reported in the Table below. Following the stated model, critical values using two sets value, lower and the upper bound were chosen. I(1) for the upper band and I(0) for the lower band. We described the decision guide in the table below:

Table 4. Guide for making a decision for the Bound Tests

State	Inference	Remark
<i>F-stat larger than the lower and upper bound</i>	<i>Fail to accept the null hypothesis of no long run relationship</i>	<i>A cointegrating relationship exists</i>
<i>F-stat less than the lower and upper bound</i>	<i>Do not reject the null hypothesis of no long run relationship</i>	<i>No cointegrating relationship exists</i>
<i>F-stat at the chosen level of significance falls within the lower and upper bound</i>	<i>Results is indecisive</i>	<i>Results is inconclusive</i>

It can be seen from the bound test table below that the FPSS of 3.9 exceeds the upper band at 0.05 which stands at 3.6, thus cointegration is confirmed.

Table 5. Summary of Bound Test Result

Dependent variable	F-statistics	Critical value@5%		Conclusion
		I0 Bound	I1 Bound	
LWebtrans	3.9	2.5	3.6	Cointegration exists

Source Author's cointegration

Having established the existence of cointegration following the bound test approach, next we measure the error correction representation. The result is presented in table below:

Table 6. Error Correction Representation

Indices		T-stat	Standard errors	P-value
ECM(-)	-0.22	-4.003	0.054	0.0000

The coefficient of the Error Correction Mechanism (-0.22) is negatively significant, which implies that 22 percent of the errors in the model are corrected annually. The ECM suggests that web transactions adjust to the speed and dynamics of investment drivers in Nigeria within the studied period. The estimated coefficient of the error correction term is negative, less than unity and is highly significant. These results confirm the presence of a highly stable, long run relationship. It can be inferred that deviations from equilibrium in the short run is restored over the long run at 22% implying that the speed of adjustment in number of years is around 5years. The error correction framework shows a very predictable and analysable relationship given that it falls within unity (1). More so, it goes to confirm the long run elasticity of digital finance to the studied investment correlates.

Conclusion

This study was set to investigate the elasticity of digital finance to foreign investment correlates in Nigeria. The quest was triggered by the need to determine whether foreign flows act as enablers for the development of digital finance. Using web transaction value as a proxy for digital finance, it was found that foreign investment flows proxied by FDI, FPI and Loans act as drivers for digital finance. FPI and Loans were significant. Digital finance is promoting FPI and not FDI which is not healthy. For a developing country, investment in FPI may not be good. Focusing on investments that are less volatile should be the priority of policy makers. it has been pointed out that FDI are not only less volatile, but also more consistent with development objectives. Emphasis of the government should be on the policy measures that are likely to reduce the very high perceptions of risk and therefore rates of repatriation demanded by foreign investors.

The volatile nature of FPI should be of concern to policy makers given the incidence of global crisis. The financial crisis observed was remarkable in several developing countries. There were portfolio reversals as PFI were flowing out from developing countries instead of flowing in. This further reduced the positive contribution of FPI to nation building. What this implies is that due to the volatility nature of FPI, governments can scarcely predict how much capital is available for them to plan the economy. This is not a pleasant situation for many developing countries that are outspending, to attract such foreign investments. Considering the enormous incentives provided by developing countries, it is obvious that many developing countries are relying more on foreign capital relative to domestic capital for investment.

here is need for countries to have timely and accurate data on capital flows. This is in relation to the effect of the global financial crisis. Due to the volatility nature of foreign fund flows, policy measures to build a country's resilience to foreign capital related shocks must be given serious attention. Our research findings present the necessity to take additional steps towards more beneficial rules and regulations governing foreign inflows. Emphasis should be given to operations and exist strategy.

To attain an important objective of economic development. The onus is on policy makers to work towards a stable economic and political stability. Attention must be given to good governance, fiscal and monetary policies. Digital financing in all countries, and in particular the participation of developing countries in the global digital economy, calls for targeted investment policies. Policies that are geared towards attracting more of non-speculative investments of long term perspectives rather than short term speculative investments. This is one sure way of foreign capital inflows Providing financial stability in host country.

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JEL Classification: G32

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**THE ROLE OF REGULATION, ETHICS AND LEADERSHIP IN THE
POLISH COOPERATIVE BANKING SECTOR**

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Abstract. *The stability of the banking sector is of key importance at a worldwide level as it is proved by the financial crisis of 2007 and 2008. The structure of the Polish cooperative banking system did not change in a fundamental way after the global financial crisis. Focus on co-financing of local initiatives and social involvement has been always very important for the Polish cooperative banks. The Polish cooperative banks are a key intermediaries in direct payments' flow between EU funds and farmers. Yet, this banking sector had gradually undergone restructuring processes in order to adapt to the EU requirements. This study attempts to identify the role of banking regulation, ethics and leadership on the development of cooperative banks in Poland. The analysis of the activities of cooperative banks was based on information provided by National Bank of Poland (NBP), Polish Financial Supervision Authority (KNF) and literature review.*

Keywords: *cooperative banks, banking regulations, leadership in banking.*

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Introduction

The global financial crisis clearly has had a profound impact on UE regulatory framework. At the level of the European Union, many European banks were bailed out by their national governments as a result of global financial crisis of 2007–2008, (Lannotta, Nocera and Sironi, 2013). Recapitalization of the banks as a form of anti-crisis measures has revived the debate concerning the proper banking regulations. In the context of banking regulations at the UE level, literature has suggested that the UE banking landscape changed into direction of a more integrated Banking Union (Beck and Casu, 2016). The European Union implemented new requirements concerning bank capital and risk monitoring in 2014. The commercial and cooperative banks in Poland are obliged to meet the capital requirements laid down in EU regulations (package Capital Requirements Directive IV/ Capital Requirements Regulation) and follow the guidelines of banking sector regulators on capital adequacy ratios. Polish Financial Supervision Authority applied additional capital requirements to all banks at the minimum level of the Total Capital Ratio at 12%, higher than the CRDIV/CRR standard of 8% in order to avoid micro- and systemic risks in the financial system. In order to strengthen the Polish cooperative banking

sector two group of cooperative banking associations were created (Group of BPS and Group of SGB) and Institutional Protection Scheme for Polish cooperative banks was implemented. It was motivated by regulatory requirements and in order to stay ahead of commercial banks and credit unions competition (Soloma, 2017).

Literature review

Ethics has become an important topic of inquiry in a variety of disciplines, including management, sociology, psychology, finance and economics. For example, business relationship development implies that customers have confidence in their providers. This may be specifically true in the banking service context, where switching costs often prevent customers from terminating the relationship. The loss of public trust in banks as public trust institutions has been linked to financial institutions unethically selling risky products to customers and investors (Węclawski 2015). Ethical concepts require a holistic approach when dealing with decisions of bank customers. Zinkin (2014) identified some important ethical issues in banking:

1. The collapse of system integrity where risks are chopped into thin slices and then distributed between different players.
2. Failure of free markets' ability to make sensible and ethical decisions. For example, the higher expected rate of return by investors, force banks to create risky securities such as subprime securitization instruments.
3. Market malpractices and failures due to inefficient regulatory integrity.
4. The need for organizational integrity by creating self-discipline, values and culture as these core principles must be properly integrated in the bank. On the other side, ethics are effected by cultural norms, believes and values of the organization.

Results

Zinkin (2014) argues that personal ethical decisions in banking are shaped by rules, incentives and soft elements (Figure 1). It is useful to draw attention to mind-sets of soft elements. The nature of the mind-sets of company's sales personnel has been the subject of considerable discussion.

As Zinkin (2014) points out, different types of financial service have different mind-sets. For example investment bank "traders live in a win-lose world and seem to be motivated by the size of their bonus while retail bankers used to appreciate the importance of customer-centricity". This last approach adopted by the salesperson in financial services is seen as the key to understanding the degree of customer satisfaction with the relationship (Bejou et al., 1998).

There is also evidence to suggest that ethics and trust play an important role in the customer's evaluation of relationship quality. As noted by Bejou et al. (1998), the degree to which a customer trusts a particular salesperson will be positively influenced by the belief that the salesperson is operating in the customer's best interests. It should also be emphasized that the decisions of financial institutions customers are taken in conditions of risk and uncertainty. According to McKnight and Chervany (2002), trust is central to interpersonal and commercial relationships

because it is crucial wherever risk, uncertainty, or interdependence exist. The consumer trust to the bank can be defined as the belief that the bank does not use its advantage, to act to client disadvantage.

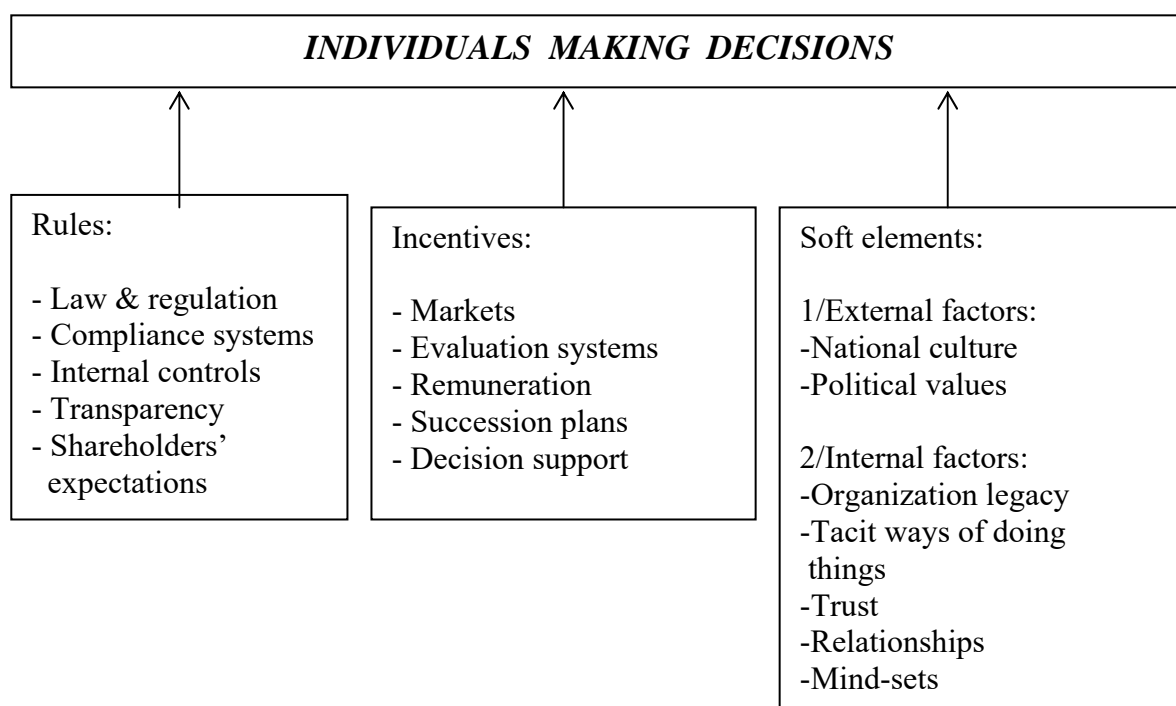


Figure 1. Framework for shaping ethical decisions in banking

Source: Zinkin (2014)

In case of bank choice by the customer, the trust plays an important role allowing to overcome the cognitive complexity as some new banking products are often becoming more complex and risky.

The most important role in conducting ethical operations play Bank's Management Board and Bank's Supervisory Board. For example, they are responsible for internal compliance regulations, the bank's principles of good practice, the rules of managing conflicts of interest, fair and clear view of the financial statements, their preparation in accordance with applicable regulations, proper accounting records and the report on the activities of the Bank, etc. As far as moral hazard operations are concerned, managers of cooperative banks may use the bank funds for purposes other than members' best interests. In this case, how important are ethical activities showed the Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie (SK Bank) crisis in 2015. The Polish Financial Supervision Authority (KNF) decided to file bankruptcy proceedings against the SK Bank in November 2015. As a result, over 2 billion zlotys were paid out from Bank Guarantee Fund as the pay-out of guaranteed deposits.

In economics in the 1970s, the rational expectations hypothesis became the crucial part of theory and it was useful assumption in pushing applied work forward. The key features of this hypothesis are that all agents are rational, have perfect foresight and their expectations (based upon times series observations) are, on

average, correct (Lucas, 1986). This hypothesis was promising approach in economic modeling. According to Hommes (2015), this assumption excluded all irrationality and market psychology from economic analysis. Yet, economy is a complex system, i.e. nonlinear expectations feedback system with many interacting consumers, banks enterprises and expectations and beliefs of investors about the future state of economy, etc. The more recent example is the decline of financial markets in 2008 was driven more by pessimistic expectations of investors than economics fundamentals. Recent research revealed that these large changes of global financial markets do not capture behavior under rational agent models (Hommes, 2015). Yet, the structure of the Polish cooperative banking system did not change in a fundamental way after the global financial crisis. The Polish cooperative banks are owned by their members. In Poland, commercial banks are shareholder based institutions. Differences in ownership form, have implications for strategies pursued and the business models, e.g. differences in lending relationships. Ferri et al. (2014) highlight that bank ownership affect lending behavior in many European countries. For instance, cooperative banks attempt to smooth financial conditions for their customers to maintain longer term borrower-lender relationships by conducting less procyclical loan supply policies, irrespective of the economic situation.

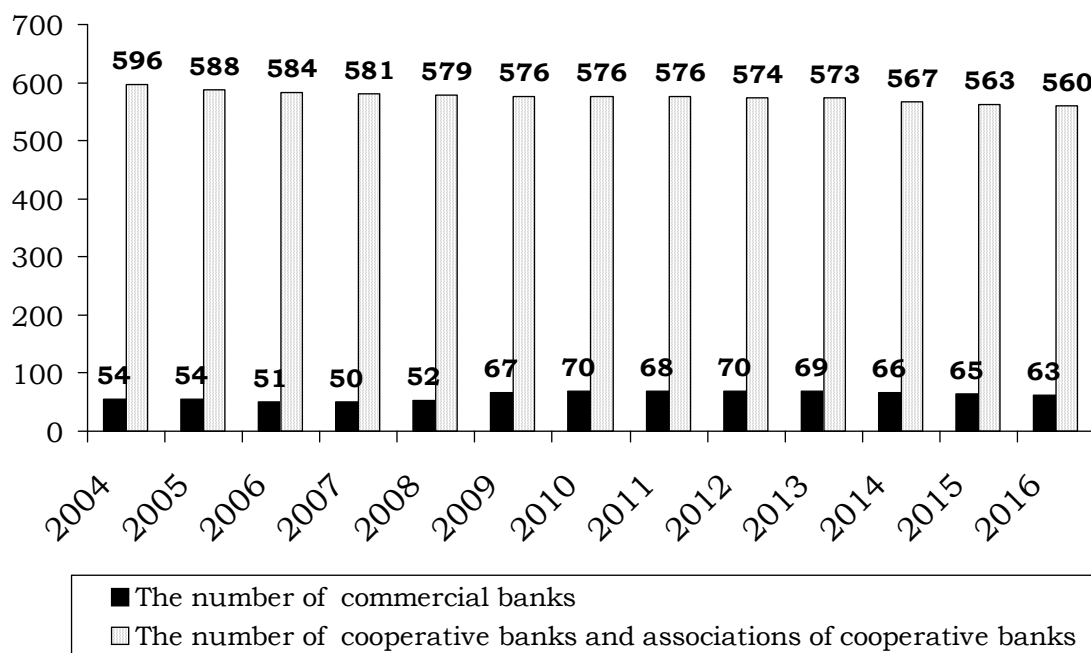


Figure 2. The Polish banking sector structure in the years 2004-2016

Source: Own elaboration based on the data of Polish Financial Supervision Authority and National Bank of Poland

The quality of institutional infrastructure and regulatory structures in the financial sector plays a major role in fostering the development of the banking sector in transition countries like Poland. According to Haselmann et al. (2016) the story of banking in Central and Eastern Europe region is a process of institution building and evolution of foreign bank ownership. Early in the transition period to a market economy, foreign strategic investors in commercial banks in Poland brought modern technology, improved banking practices (e.g. implemented credit scoring models)

and they were treated like source of direct capital investment. Furthermore, foreign commercial banks owned a majority of bank assets by 2000. Moreover, lending to households expanded much more rapidly than lending to any other sector. At the end of 2016, 63 commercial banks and 560 cooperative banks carried on operations in Poland (Figure 2). The Polish cooperative sector is represented by two associations of cooperative banks (Group of BPS and Group of SGB) and 556 cooperative banks in association structures. Only, two banks operate outside of these association structures.

In 2016, cooperative banks served customers through a countrywide network of 4100 branches (*Raport o sytuacji banków w 2016, 2017*). Cooperative banks' market share for the total bank branches in Poland is 38%. The Polish cooperative banking sector has historically financed entrepreneurship development processes of communes in which they function. After Poland's accession to the EU in 2004, the agrarian policy of the state has been directed to the harmonization with the European Union general agricultural policy. In the early years of a market economy in Poland all entitles, including farmers and banks, had to adapt to new rules. According to Marks –Bielska (2016), two contradictory trends appeared within the agrarian transformations – towards concentration and towards fragmentation, eg. some farmers divided their farmland. The average area of agricultural land per 1 farm, is gradually increasing, and in 2014 reached to 10.3 ha (*Agriculture and food economy in Poland, 2015*). The cooperative banks have gradually undergone restructuring processes in order to adapt to the EU requirements. In the last decade, the main reason for the decreasing number of cooperative banks in Poland are consolidation processes, mergers and acquisitions (Figure 3).

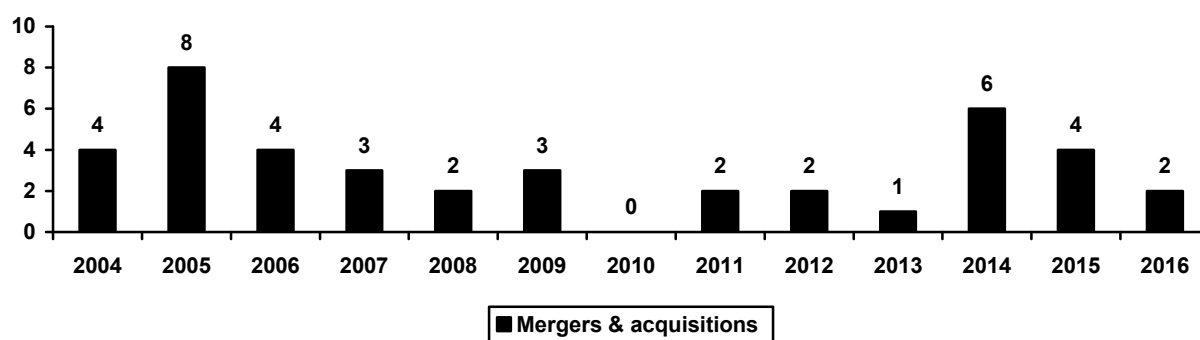


Figure 3. The number of mergers and acquisitions in Polish cooperative banking sector, 2004-2016

Source: Own elaboration based on the data of Polish Financial Supervision Authority and National Bank of Poland.

The majority of Polish cooperative banks met capital ratios standards, in accordance with the provisions of the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR). According to the data of Polish Financial Supervision Authority, only 28 cooperative banks (representing less than 2% of total assets of the banking sector) failed to carry out this minimum capital requirements at the end of 2016 (*Raport o sytuacji banków, 2017*). Managers of

cooperative banks try to search for a balance between maximisation of local communities' access to banking services and fulfilment of fiduciary duties to shareholders and depositaries. Hence, about 90% of all banks in Poland are not strictly profit maximizing entities. Yet, Polish cooperative banks held approximately only 9% shares of the assets of the entire banking sector (Table 1).

Table 1. Assets of banks in Poland, 2008-2016 (PLN billion)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Cooperative and affiliating banks	76	82	96	106	116	130	135	140	153
Commercial banks	963	977	1 062	1 188	1 234	1 277	1 394	1 490	1590

Source: Source: Own elaboration based on the data of Polish Financial Supervision Authority (2017) and National Bank of Poland (2017)

Furthermore, Polish cooperative banks are often the only banking outlets available in small towns. The Polish cooperative banks are client-owned who own the nominal valued shares in a local cooperative bank. The main source of funding for cooperative banks are deposits from the non-financial sector. Cooperative banks serve mainly households, small and medium-sized enterprises, farmers and local governments. However, Szelegowska (2011) notes that one of the weakness of cooperative banks is adverse trend in the age structure of banks' clients. There is also recognition in the literature that potential customers of cooperative banks are currently taking advantage of commercial banks because of convenience and wide range of services provided by low cost mobile banking outside of bank branches (Kawa 2016). The Polish cooperative banks play an important role in the socio-economic development of rural development. The availability of subsidized agriculture loans and cooperative banks' lending policies are an important source of funding for the agriculture sector. The Polish Population in 2017 amounted to 38.4 million people, of which 39.8% inhabited rural areas. The agriculture is an important sector of the Polish economy. The global value of agricultural holdings' production in Poland (in current prices) places Polish agriculture at 7th place in the European Union behind France, Germany, Italy, Spain, Great Britain, and the Netherlands (*Agriculture And Food Economy in Poland*, 2015).

Conclusion

This paper focuses on the impact of regulation, ethics and leadership on the structure and challenges of Polish cooperative banking sector. The authors state that an ethical framework for banks should include rules –based and principles based regulation. The majority of Polish cooperative banks met capital ratios standards set up by Polish Financial Supervision Authority. The availability of cooperative banks' loans is an important source of financing for the agriculture sector and the rural community. These banks usually have more loyal customers (who are also members) than customers of commercial banks.

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