

# DECISIONS IN FINANCE MANAGEMENT AT POLISH FINANCIAL INSTITUTIONS – CREDIT UNIONS AND THE NATIONAL CREDIT UNION

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*Crediting financial institutions (financial co-operatives) on Polish territories began functioning in the 19th century. They performed duties also in the period of the 2<sup>nd</sup> Republic of Poland. After World War II, credit unions were subjected to various organizational transformations. Their regeneration in Poland took place early in the 1990s in the shape of the credit unions. The non-banking financial institutions in Poland – credit unions and the National Credit Union – take investment and financial decisions. These decisions deal with finance management. Investment decisions are not a uniform category. One can group them on various bases. The credit unions and the National Credit Union may take up various attitudes towards the investment risk. Financial decisions are determined by operational and investment activity of the mentioned financial institutions. The scope of investment and financial decisions of credit unions and the National Credit Union is different. There are external and internal factors, as well as mixed internal-external factors influencing at the present moment the investment and financial decisions of credit unions and the National Credit Union. Future changes within the investment and financial decisions of credit unions and the National Credit Union in Poland may be determined, among other factors, by the accepted model of development of these financial institutions (Model of Quantity-Quality Changes – MQQC or Banking Model – BM).*

**Keywords:** *financial institutions, credit unions, the National Credit Union, the stages of credit unions' development, investment and financial decisions in finance management of credit unions, determinants of investment and financial decisions, models of credit unions' future development, commercial bank, co-operative bank*

## 1. Introduction

The Polish financial system comprises two groups of elements: marketplaces (capital and money markets and financial implements) and institutions (a system of commercial and co-operative banks as well as credit unions, the remaining financial institutions). Among the remaining financial institutions we can mention:

insurance companies, pension funds, investment funds.

On the capital market, financial institutions, apart from rendering financial services, undertake investments differentiated in respect of kinds, e.g., invest ownership and outside capitals into various implements and also gain the ownership capitals (e.g., through issue of shares) and outside capitals (e.g., in the way of contract-

ing credits). Then, on the money market are issued exchange bills (treasury bills) and other securities which are also the object of short-term financial investments. The capital is also invested short-term on the currency market.

The year 1989 was in Poland a decisive one. It was the beginning of extensive changes. The political changes (e.g., changes of the political climate, party system, election system) were followed by other considerable legal and economic changes. Namely:

- new laws were voted and changes were introduced into force,
- a radical reconstruction of the banking system followed, depending on replacement of the monobank (one-level) system by the two-level system,
- a number of new financial markets and institutions, therein financial, appropriate for the market economy, came into being,
- new financial implements appeared as an object of investments and allowing to gain capital,
- a new system of financing economic subjects and households came into being,
- the credit unions came into being and prospered,
- Poland became a member of the European Union (in the year 2005). Before the accession, in Poland changes in various spheres of life were introduced in compliance with requirements to new members.

Credit unions on Polish territories have a rather long tradition. The nearly 150 year-long existence of credit unions can be divided into several stages of their development.

Credit unions, newly created after 1989, serve mainly the needs of households. In these financial institutions, like in other economic subjects, the process of finance management (directed to

the main purpose) is realized, comprising investment and financial decisions. These decisions are characterized by certain peculiarities. Differences appear in the scope of investment and financial decisions between the credit unions and the National Credit Union – various levels of these financial institutions.

Investment and financial decisions taken at the present moment through the credit unions depend on two groups of factors and a mixed factor.

One can select various models of the future development of credit unions in Poland, which are one of the factors determining the course of the future process of finance management in the country.

## **2. The development of credit unions**

Financial institutions – credit unions – in the course of a relatively long period of their activity in Poland underwent to various changes at particular stages of their development. These changes concerned the number of the functioning financial institutions, their distribution, organizational structure, the scope of rendered financial services, onomastics.

Financial crediting services have existed on the Polish territories since the 19<sup>th</sup> century. There were, however, different moments of their founding as well as different models (patterns) of their activity. Financial activity of banks carried out in Poland has a relatively long tradition. Its beginnings can be traced back to the second half of the 16<sup>th</sup> century.

The first development stage was observed during partitions (1), as it should be remembered that Poland for about 150 years was divided into the Prussian, Russian and Austrian partitions.

The first credit union on Polish territories in the Prussian partition was established in 1861

in Poznań. It was called the Lending Association for Industrialists of Poznań. This credit union functioned similarly to folk banks of F. H. Schulze. In the second half of the 19<sup>th</sup> century, new credit unions were established. They functioned as folk banks. One of the founders of the union was priest P. Wawrzyniak who in 1873 established the Folk Bank.

On the other hand, on the Polish territories ruled by Austria, the unions copied the pattern of W. Reiffeisen. The first union to offer saving and crediting services was the Galician Saving Union started in Lwów in 1844.

In the Russian partition, however, the financial institutions based their functioning on different models. Starting from 1870, the Lending Unions of Industrialists were being established. At the end of the 19<sup>th</sup> century, the Russian government issued an order to transform all the unions mentioned above into the Associations of Mutual Credit or Associations of Small Credit. They based their activities on the system of F. H. Schulze. On the other hand, the Credit Associations established in the beginning of the 20<sup>th</sup> century were based on the model of W. Reiffeisen.

The second stage of credit unions on Polish territories dates to 1918–1939. It was the period of the 2<sup>nd</sup> Republic of Poland. The total number of credit unions constituted more than a half of the crediting institutions that operated at that time (2).

The next stage took place after World War II and lasted up to 1975. After the war, about 1300 credit unions were re-established in Poland. An important moment was merging the Spółem Bank and the Central Union into the Bank of Union Economics. The latter was liquidated in 1948. The unions existing hitherto did not carry out banking activities on their own behalf.

The next change took place in 1956 when the name “saving and crediting unions” started to be used. Their financial centre also underwent certain changes. The role of this financial centre was first played by the Central Bank and later by the Agricultural Bank. However, from 1957 the functions of the organization and inspection centre were fulfilled by the Central Association of Saving and Lending Unions in Warsaw.

Credit unions actually ceased to function in 1975. It took place by transforming them into credit (union) banks. The Central Association of Saving and Lending Unions was merged with the Agricultural Bank into the Bank of Food Economics which has been operating until today.

After 1989, Poland saw changes in, among others, the structure and ways of the functioning of the banking system and crediting financial institutions, i.e. credit unions were established. The fourth development stage has started in 1992. Since that year, credit unions commenced to appear. One can distinguish three development trends of credit unions: in the place of work, at the parish, and the municipal trend. This division is made on the basis of the place where the entities mentioned above operate, as credit unions may operate in places of work, in cities or towns as well as in parishes of the Roman Catholic church. In the latter case, credit unions rent rooms belonging to parishes.

Credit unions are active participants of the market of financial services in Poland. The credit unions functioning presently in Poland refer to credit unions of W. Reiffeisen, F. Stefczyk and priest P. Wawrzyniak (3).

According to the author of this article, these institutions have the following characteristic features:

- a non-complicated two-level organization structure (the “lower level” are credit un-

- ions, i.e. crediting institutions of natural persons; the “higher level” is the National Credit Union which is a crediting institution of legal entities, i.e. credit unions) (4),
- implementing the social objective, i.e. financial self-help (mutual crediting of the members) to serve the interests of the group of members,
  - activity not using maximalizing profit or assets of the company (i.e. non-profit activity as defined by the Act),
  - direct connection between the efficacy of finance management and numerous factors, including the legal one which in the case of credit unions is a statutory and external factor (i.e. independent of them),
  - a two-element structure of decision-making: covering decisions of two kinds (financial and investment ones) which differ from the discussed decisions of other traders, including banks,
  - multi-trend (credit unions operate in places of work: company trend; in cities: municipal trend; in parishes belonging to the Roman Catholic Church: parish trend connected with renting rooms in the parish houses),
  - playing the role of an entity giving and taking the capital,
  - lack of regulations specifying minimal amount of capital,
  - enriching the market of financial services by their products,
  - legal restrictions concerning the scope of financial decisions made by credit unions and the National Credit Union,
  - restrictions concerning access to deposits in credit unions as well as credits and loans granted by credit unions because, according to the existing rules, a given entity may be a member of a credit union if there is a professional or organization bond among the people who are its members,
  - lack of bank supervision (credit unions are supervised by the National Credit Union in the field of financial economy and abiding by the law) (5),
  - lack of obligation to direct obligatory reserves to the Polish National Bank,
  - obligation to maintain a liquid reserve (in the form of deposits in the National Credit Union, which constitute 5% of the saving and lending fund) (6),
  - investment dualism (credit unions and the National Credit Union are, on the one hand, places of financial investing and on the other hand they play the role of financial, material and non-material investors),
  - granting credits, accepting deposits, i.e. fulfilling typical banking activities (despite the fact that credit unions are not banks) (7),
  - using banking law while concluding credit agreements,
  - a relatively wide range of activities in the three operating trends enumerated above,
  - legal restrictions concerning the investment activities of credit unions and the National Credit Union (less strict in the case of the National Credit Union),
  - playing the role of a financial institution which is “close” to its members depositing their savings and receiving credits and loans.
- Nowdays there are 1608 credit unions (with their branches) in Poland (8). The total number of credit unions’ members is over 1. 575. 000. Credit unions develop in Poland also as far as their location is concerned. They are placed in many cities including Warszawa, Krakow, Katowice, Poznań, Lublin, Gdańsk, Łódź, Wrocław

law, Bydgoszcz, Rzeszów, Szczecin, Kielce. There is the Program of Savings' Protection covering the stabilization fund of the National Credit Union and Joint Insurance of Deposits of Mutual Insurance Association for credit unions. This program is implemented by the following entities:

- the National Credit Union, specifying standards of the allowable risk and also managing the stabilization fund,
- Mutual Insurance Association for credit unions, which insures savings deposited in credit unions.

Credit unions offer their services to the members who:

- do not make business (service of the deposits on accounts and financial assistance),
- make business (service of the accounts of companies, granting credits for the development of companies).

Investment and financial decisions of credit unions are characterized by specific features.

### **3. Investment decisions in finance management of credit unions**

The finance management process of a financial institution comprises a number of actions which are in a determined way connected with each other. Compactness of actions exerts an influence on the course of this process. The aforementioned process can be considered in two aspects: objective and subjective. Managers of a financial institution participate in the finance management process. Actions of managers are carried into effect within the function of this management. Managers avail themselves of various implements introduced into the finance management process.

The process of managing credit unions has a dynamic and complex character. The managers should create optimal proportions among resources in this process. The subject of management is resources of various kinds, i.e. human, material, information and financial. The process of management includes monetary resources and monetary streams. Resources have a static character, e.g., resources of monetary means on the accounts in a credit union. On the other hand, monetary streams reflect movements of monetary means, and that is why they belong to a dynamic category. Monetary streams expose the physical movement of monetary means or flows of money from the account of one entity, e.g., a credit union to the account of another entity, e.g., the National Credit Union.

Finance management is a vital segment of managing a financial institution. The issue of finance management is discussed by various authors, e.g., W. M. Grudzewski and I. K. Hejduk, J. Śliwa, L. Szyszko and J. Szczepański (9).

Credit unions and the National Credit Union should have a laid-out strategy of development, which comprises, on the one side, the strategic aim and on the other side means of its realization. The strategy consist of various detailed strategies. The development strategy accepted by a financial institution is determined by its investment decisions. These decisions are one of the implements serving the realization of the strategic aim.

Credit unions and the National Credit Union implement the main (social) objective which is equal to financial self-help (mutual crediting of the members). This objective shapes a non-profit character (10) of the activity of these entities (11). The balance surplus obtained by credit unions and the National Credit Union supplies respectively the resource and stabilization funds (12).

Finance management of credit unions is connected with their main objective. This management constitutes one of the instruments of implementing the main objective of the financial institutions. Within the field of finance management, credit unions make financial and investment decisions which will be discussed later in this article. The issue of investment and financial decisions is discussed by various authors, e.g., K. Jajuga and T. Jajuga, E. Ostrowska, J. Gajdka (13).

Finance management should optimally shape cash flow in order to fulfil interests of the members of a financial institution. What is meant here are the streams of the financial capital obtained (inflows) and streams of outflowing financial capital (outflows).

Finance management of the financial institutions enumerated above should be perceived as an activity and a process, similarly as in the case of other economic entities (14). It includes managing processes of gathering capital from different sources and depositing it in various assets in order to implement the strategic target of the financial institution (15).

Credit unions have a dual character. On the one hand, they play the role of an entity giving capital, and on the other hand they are an entity taking capital, the entity which is supplied with the capital from the outside i.e. from the environment.

Investment and financial decisions made within the field of finance management of credit unions are significant for these financial institutions. They are characterized by specified factors. Investment decisions taken by credit unions may concern implementing material, financial and non-material investments. This division of decisions is made from the point of view of the kinds of investments they refer to. Generally

speaking, investment decisions engage the means for a long period of time, usually longer than a year. As a result, there should rise a balance surplus of credit unions and the National Credit Union. Although the financial inflow enlarges the balance surplus of the institutions discussed, it is not allocated among members of the union. In the case of credit unions, their members are natural persons, and in the case of the National Credit Union the members are legal entities. The crediting financial institutions allocate, as said before, their balance surplus respectively to the resources and the stabilization fund.

Investment decisions concerning implementation of material investments (into tangible assets) taken by credit unions are characterized by specific legal restrictions. What is meant here is the fact that a credit union may purchase fixed assets (16) whose total value does not exceed 5% of the value of its assets at the time of implementing the transaction (on the day of purchase). In special cases, it is possible to exceed this extent to 10% of the volume of a credit union's assets on the day of implementing the transaction. In this case, however, the approval of the National Credit Union is obligatory.

On the other hand, the National Credit Union may make investment decisions concerning implementation of material investments (into tangible assets) which engage financial capital in various fixed assets. One can quote here the examples of buildings, means of transport or technical devices and machines (17).

Credit unions may also take decisions concerning implementation of financial investments. They engage financial means in the following different legal financial instruments (18):

- shares and payments in the National Credit Union.

- bonds and other securities issued or guaranteed by the State Treasury or the Polish National Bank,
- deposits on the accounts in the National Credit Union and banks, taking into consideration that their value is specified by the volume of the sum guaranteed by the Banking Guarantee Fund. The value of financial deposits in payments, shares, securities of one kind, however, must not exceed 8% of a credit union's assets. This does not concern bonds and other securities issued or guaranteed by the State.
- securities and deposits in financial institutions,
- shares in limited liability companies, stocks in listed companies and shares in the unions.

In the latter case, there are certain restrictions. The National Credit Union may invest its financial capital only in the financial instruments of the companies in which it has the majority of shares or stocks. There is a restriction concerning the value of deposits in securities and other financial institutions. It must not exceed 8% of the assets of the National Credit Union. This restriction does not refer to deposits in bonds and other securities issued or guaranteed by the State Treasury or the Polish National Bank.

### *Treasury or the Polish National Bank as well as deposits in the National Credit Union*

Investment decisions concerning implementation of credit unions' financial investments are characterized by specific limitations. They concern both the scope of these decisions and the kind of financial instruments they refer to. Credit unions take investment decisions which are wholly or to a large extent risk-free. It stems from the impact of legal factors which impose investment limitations.

Undoubtedly, it influences the volume of financial inflow generated by financial investments and as a result the volume of balance surplus. One has to take into account, however, that credit unions may only invest free financial means which, as said before, were not used for loans and credits, so on products characteristic of the activities of these financial institutions. Thus, financial investing is only a supplement to the basic activity of credit unions.

On the other hand, the National Credit Union takes decisions concerning implementation of financial investments (19) which refer to:

The National Credit Union may invest free means of the stabilization fund exclusively in bonds and also other securities issued or guaranteed by the State Treasury or the Polish National Bank.

Credit unions may take decisions about implementation of non-material investments. They refer to the purchase of computer programmes whose planned period of usage is longer than one year, and also to the training of employees. It is worth noting that in the field of financial accounting in Poland it is assumed that investing in computer programmes means investing in licences or property copyright.

Credit unions invest in the development of their staff (knowledge, qualifications). In literature and also in practice, money spent in this way is described as "investments in human beings" They are based on financing (or participating in the costs of) the education of employees by credit unions. Members of the staff may gain and improve their professional qualifications taking part in, e.g., various professional courses (trainings) They are organized by the Foundation for Polish Credit Associations.

On the other hand, investment decisions concerning non-material investments taken by the National Credit Union may be directed to advertisement and promotion. The advertising and promotion fund mentioned above serves this purpose. Thus, the scope of investment decisions (of such kind) taken by the National Credit Union may be broader as compared to credit unions.

Unions and the National Credit Union as investors investing their capital may take various attitudes towards risk connected with material, financial and non-material investments. These attitudes are risk aversion, tendency to take risk, neutrality towards risk taking (20).

An investor characterized by risk aversion does not make investments if the chance of obtaining profit from investments is too small. It is only a huge chance of obtaining profit that can make an investor go for risky investments and overcome his aversion to risk taking. An attitude characterized by avoiding risk by an investor has specific consequences as far as the profit generated by investments is concerned. It can be much lower than in the situation when an investor is willing to take risk. In effect, risk aversion can result in less impact of investing of capital in various instruments used for reaching the main objective of financial institutions.

An investor is characterized by a tendency to take risk if he invests its capital also when the danger of suffering loss is greater than the chance of obtaining profit from investment. The higher the tendency to take risk, the higher the danger of suffering loss so that investor cannot invest its capital in instruments. The more willing an investor is to take risk, the more instruments bearing greater risk are included in the investment portfolio. It affects the volume of profit from investments according to their kinds and also

the volume of profit from investment portfolio. As a result, it has a specific impact on reaching the basic objective of financial institutions.

Neutrality towards taking risk means the situation when an investor does not attach any importance to the extent to which the possible effects of various investments differ from each other. An investor which is neutral towards taking risk uses these investments only when the chance of obtaining profit is higher than the danger of suffering a loss. An investor characterized by the attitude discussed above is particularly interested if a given investment can guarantee him safe profit. The situation in which an investor is neutral towards taking risk affects the impact of investments on implementing the basic goal of financial institutions. An investor which is mainly interested whether it can guarantee obtaining profit, uses safe investments. As we know, they are connected with much less profit as compared to investments which carry a specific risk. Therefore, choosing a given attitude towards risk connected with investments may determine the impact of these investments on reaching the main objective of financial institutions.

To recapitulate, investment decisions taken by credit unions and the National Credit Union:

- demand engagement of the finance capital.
- are connected with the factor of time, which plays an important role.
- cause the rising of alternative costs.
- should be estimated for the reason of profitability.
- should generate profit.
- are burdened by a definite risk (in the case of the National Credit Union; as regards the credit unions, the risk does not concern only the decisions connected with investments into securities, what results from the fact that credit unions may invest capi-

tal only in certain securities and therefore with a zero-risk),

- can be single (sequenive) and collective (portfolio),
- are part of the decisive process of investment of the discussed financial institutions.

Credit unions may be supplied with finances from various sources.

#### **4. Financial decisions in finance management of credit unions**

Financial institutions should pay considerable attention to the size and structure of the financing sources. Besides, the volumes of the ownership and outside capitals are essential proportions between these capitals. Of certain significance is also the price of capital gained through financial institutions. Such price is, e.g., the interest rate of deposits paid to investors – investment givers (price paid for monetary means invested on accounts) and the interest rate on contracted credits.

The inflow of financial capital to credit unions should be properly correlated with the outflow of this capital. Financial decisions should ensure the supply of capital sufficient for carrying out operational and investing activities (making appropriate investment decisions).

Financial decisions made by the financial institutions under study are based on gaining monetary capital from different sources. As concerns the general definition of financial decisions, they do not differ from those of other economic entities. The differences concern the scope of financial decisions made by credit unions as compared to other economic entities.

Financial decisions made by credit unions are characterized by several specific features such as:

- dynamics,
- alternative forms of implementation,
- a dual character,
- lack of the uniformity of source as concerns the forms of gaining means,
- legal restrictions,
- lack of the uniformity of entities as concerns the forms of gaining means.

The duality of financial decisions made by credit unions is connected with the factor of time. Financial decisions of these financial institutions may be long-term and short-term. Thus, they are connected with investment decisions or present decisions.

The dynamics of financial decisions concerns gaining monetary capital (monetary streams) by the financial institutions under study. This process is connected with the flow of money. Monetary means are gathered in the final, i.e. static, form in the shape of different funds.

Credit unions are supplied with capital within many different forms of gaining capital. They have an alternative character.

Financial decisions of credit unions are made within certain legal restrictions. Legal factors determine the sources of in-flow of the means and in some cases also determine the amount of financial supply.

Credit unions may gain the financial capital supplying funds from many different sources, not just from one source. Hence, there is no uniformity of sources as concerns the forms of gaining means by these financial institutions.

Credit unions may gain monetary means from different entities. Credit unions are supplied with capital by natural persons as well as they can receive the means from the National Credit Union. On the other hand, the National Credit Union may receive the means (intended for the funds) from legal entities, i.e. credit unions (also

in the form of credits and loans). Thus, one can observe a lack of the uniformity of entities as concerns the forms of gaining means by the financial crediting institutions under discussion.

Credit unions obtain financial capital from such sources as (21):

- payments connected with members' shares that comprise the share fund,
- fees paid by members, balance surplus, statute-barred property claims,
- property values obtained free of charge, which supply the resources fund,
- members' payments, members' savings, money from the National Credit Union, creating the saving and lending fund.

Credit unions should work out the balance surplus enlarging the resources fund. It is also possible to generate balance loss by these financial institutions. In the latter case, this loss should be covered. There are two sources of covering the balance loss by credit unions:

- the resource fund,
- the share fund only in the part which exceeds the resources fund.

Credit unions may deduce from the savings and members' contributions the amount of credit, loan or installments that must be paid. They may take out credits and loans only from the National Credit Union. There is a maximum level of mutual liabilities of a specific credit union and the National Credit Union, which is no more than 40% of the value of the credit union's assets (22).

The National Credit Union obtains its financial capital from the following sources (23):

- payments connected with members' shares creating the share fund,
- fees paid by the members supplying the resources fund,
- members' payments (paid every month)

delivered by associated credit unions in the extent of no less than 1% of their assets and balance surplus. These payments create the stabilization fund which has to stabilize the activity of credit unions as well as the National Credit Union and especially to finance assistance programmes,

- annual premium specified each year by the National Credit Union's Board paid by each member in the extent not exceeding 1.2% of his or her assets, creating the advertisement and promotion fund.
- deposits, credits ad loans taken out by the National Credit Union, which supply the credit and investment fund established to give credits and loans as well as to finance financial investments.

The National Credit Union receives the means from credit unions (the means which later become interest-bearing deposits) in the form of:

- resources and share funds,
- no less than 5% of the volume of the saving and lending fund which constitutes the reserve for current operations (24).

Financial decisions taken by credit unions and the National Credit Union:

- regard various kind of financial capital (of many kinds),
- enable gaining monetary means for realization of short-term and long-term purposes – in connection with operational and investment activity of these financial institutions,
- should ensure the optimal structure of the finance capital,
- are burdened with a definite risk,
- have connection with the discount rate accepted by credit unions and the National Credit Union through the price of finance capital gained thanks to taking these deci-

sions; the cost of the finance capital according to kinds is taken into account in the Weighted Average Cost of Capital (WACC) or in the Marginal Cost of Capital (MCC),

- express the relations of credit unions and the National Credit Union with various subjects; in case of credit unions, we may speak about connections with their members – natural persons and definite economic subjects; as regards the National Credit Union, the matter concerns relations with credit unions and other economic subjects and with the Central Bank (in a certain scope).

Investment and financial decisions made at the present moment by credit unions depend on numerous factors. The determinants of the investment and financial decisions may be divided into groups: external and internal, as well as mixed internal-external.

The external determinants of the investment and financial decisions of credit unions include:

- legal regulations,
- competitiveness,
- tendency to consumption,
- political factors,
- the phase of a business cycle,
- the behaviour of the Central Bank.

The internal factors are the following:

- the extent of professionalism of financial managers,
- the extent to which financial managers identify themselves with the main target,
- the dynamics of the crediting and lending activity,
- the extent of profitability of various kinds of investments,
- attitudes of investors towards risk connected with various kinds of investments.

Investment and financial decisions made by credit unions are the result of the impact of various factors taken together. They may act simultaneously, but their impact may be also consecutive.

## **5. Models of future development of credit unions, influencing the investment and financial decisions of these financial institutions**

In Poland, in the future period are possible various transformations in the area of non-banking financial institutions. Future changes in the sphere of investment and financial decisions of credit unions may be of various intensity and scope, depending on the accepted model of development of these financial institutions. According to the author of this article, possible is appearance in Poland of one of two models of development of credit unions:

- *Model of Quantity-Quality Changes (MQQC)*,
- *Banking Model* – transformation model of credit unions into a commercial or co-operative bank (*MB*).

Acceptance of the definite model will result from the will (attitude) of a financial institution and from legal regulations. The model will influence on the scope of the activity, therein on the scope of investment and decisions in the area of finance management. The accepted model of development is therefore one of the factors determining future investment and financial decisions, which has a mixed internal-external character.

The first model was formed in Poland after the year 1992 and lasts till the present moment. It holds for the whole hitherto practice of credit unions. The earlier mentioned characteristic fea-

tures of credit unions may be treated as features of this model. Besides, the discussed model is characterized also by:

- dynamic enlargement of the number of credit unions and their branches,
- spatial expansion of their activities,
- progressive merging of credit unions (e.g., of smaller credit unions with larger ones),
- introduction of new products through credit unions and also raising their quality,
- permanent raising of the staff qualifications through various instructions (training courses) and economic studies,
- higher professionalism in the service of customers,
- systematic growth of competition among credit unions on the market of financial services.

One can assume that in future will follow dynamic quantitative and qualitative changes in the scope of the accepted model of activity of credit unions (credit unions and the National Credit Union). It does not mean, however, a mere “duplication” of changes made in the past. No doubt, the final shape of the first model – *MQQC* – will be influenced by external (coming from the environment) and internal (coming from financial institutions) factors. The future shape of the model will therefore depend on various factors.

The second model – *BM* – assumes the evolution of credit unions in the direction of bank. It depends on transformations of credit unions into a commercial bank or co-operative bank, which would act within the two-level bank system (beside the existing elements of this system).

After transformation into a commercial or co-operative bank, credit unions will not possess the characteristic features regulated by law

adjusted to these financial institutions. Limitations of the scope of decisions taken in the framework of finance management would be liquidated. The newly created bank would, however, be subordinated to the law regulating the activity of commercial or co-operative banks.

The mentioned process of transformation appeared in the history of financial institutions. Namely, the Reiffeisen unions transformed themselves into the bank in Austria (25). It is worth mentioning that in Austria the co-operative banks are an integral part of a group of banks. It comprises (26):

- Reiffeisen Central Bank,
- Regional Banks,
- Local Co-operative Banks.

The Reiffeisen Central Bank fulfils the functions of the central (national) bank of the bank group. It is a commercial bank organized in the form of a joint stock company. Shareholders of this bank are the regional banks. The bank renders financial services to large subjects, both national and foreign. The Reiffeisen Central Bank is a central institution concerning the settlement of accounts of the bank group. It is engaged in co-ordination of the activities of regional banks. It possesses financial institutions conducting acting in the fields of investments, insurances, tourism. Regional banks carry out commercial activities. These banks do not compete with local co-operative banks. Besides, they carry out operations regarding the securities, compensatory undertakings of financial liquidity, training of employees, whereas local co-operative banks are credit-cooperatives serving farmers and small manufacture. They co-operate with regional banks and with other financial institutions of the bank group and also offer banking products characteristic of the universal bank.

## 6. Conclusions

Credit unions appeared on the Polish territories as far back as in the 19<sup>th</sup> century. One can distinguish four developmental phases of these financial institutions.

The credit unions created in Poland in 1992 are characterized by a two-level organizational structure, the first ("lower") level being credit unions and the second ("higher") level the National Credit Union. These financial institutions possess many specific features distinguishing them considerably from commercial and co-operative banks.

The process of finance management in credit unions comprises investment and financial decisions differing from such decisions taken by commercial and co-operative banks. This is the result of the regulations defined by law.

The credit unions can take decisions concerning the realization of material investments which are limited by the existing legal rules in the range of the investment value. The limitations, however, do not concern the material investments realized by the National Credit Union. Decisions concerning financial investments taken by credit unions are also limited by law, and the limitations in this sphere concern also the National Credit Union. In the latter case, they are, however, of a smaller scope. Both levels – credit unions and National Credit Union – can make decisions regarding the third kind of investments (non-material). There appear differences between credit unions and the National Credit

Union regarding the scope of these decisions. Namely, credit unions make decisions regarding the realization of non-material investments with a narrower scope.

Credit unions make financial decisions connected with the credit and loan activity. They may receive the finance capital from various sources. The investment activity of credit unions absorbs only monetary means which have not been laid out for the credit and loan activity. The National Credit Union also gains the finance capital from various sources. Financial decisions of the National Credit Union (broader than decisions of this kind taken by credit unions) are taken in three spheres: credit, loan and investment.

Distinguishable are external factors (coming from the environment) and internal (coming from financial institutions) and mixed internal-external factors determining investment and financial decisions taken at the present moment in the framework of finance management of Credit Unions.

Future changes in the sphere of investment and financial decisions of credit unions and the National Credit Union in Poland may depend on the accepted model of development of these financial institutions: of the *Model of Quantity-Quality Changes (MQQC)* or the *Banking Model (BM)*. The present model of development is a mixed internal-external factor shaping the course of the future process of decisions-making. The accepted model will depend on the attitude of financial institutions and legal rules.

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## LENKIJOS FINANSŲ INSTITUCIJŲ – KREDITO UNIJŲ IR NACIONALINĖS KREDITO UNIJOS FINANSŲ VALDYMO SPRENDIMAI

Leszek Kędzierski

Santrauka

Kredito institucijos (kredito kooperatyvai) Lenkijos teritorijoje pradėjo kurtis XIX amžiuje. Jos vykdė veiklą Lenkijos antrosios respublikos laikotarpiu. Po Antrojo

pasaulinio karo kredito institucijos buvo įvairiai pertvarkytos. Jas atkurti Lenkijoje pradėta XX amžiaus paskutiniuoju dešimtmėčiu kredito unijų forma. Lenkijoje

finansų institucijos ne bankai – kredito unijos ir Nacionalinė kredito unija – priima investicinius ir finansinius sprendimus. Straipsnyje išskiriami ir aptariami tų unijų finansų valdymo sprendimai. Aptariama investicinių sprendimų įvairovė. Išskiriamos pagrindinės jų rūšys.

Nagrinėjami kredito unijos priimami materialijų ir finansinių investicijų sprendimai, jų įstatymų ribojimai, taip pat finansinių investicijų į Nacionalinę kredito uniją ribojimai. Nagrinėjami Nacionalinės kredito unijos priimami materialijų investicijų realizavimo sprendimai, jos ir kredito unijų daromi sprendimai dėl trečiosios – nematerialijų investicijų rūšies. Kredito unijos ir Nacionalinė kredito unija gali turėti įvairių požiū-

rį į investavimo riziką. Finansinius sprendimus apibrėžia minėtų institucijų operacinė ir investicinė veikla. Išskiriamos kredito unijų ir Nacionalinės kredito unijos investicinių ir finansinių sprendimų sritys. Nagrinėjami išoriniai ir vidiniai bei mišrūs vidinis-išorinis veiksniai, turintys įtakos kredito unijų ir Nacionalinės kredito unijos investiciniams ir finansiniams sprendimams. Siūloma Lenkijos kredito unijų ir Nacionalinės kredito unijos būsimiesiems investiciniams ir finansiniams sprendimams, kitiems pokyčiams įvertinti bei šių finansų institucijų raidos tyrimams naudoti kiekybinių ir kokybinių pokyčių ir bankininkystės modelius, detalizuojami tie pasiūlymai.

## DECISIONS IN FINANCE MANAGEMENT OF POLISH FINANCIAL INSTITUTIONS – CREDIT UNIONS AND THE NATIONAL CREDIT UNION

Leszek Kędzierski

### Summary

Crediting financial institutions (financial co-operatives) on Polish territories began to come in to being in the 19<sup>th</sup> century. They performed their duties in the period of the 2<sup>nd</sup> Republic of Poland. After the 2<sup>nd</sup> World War, credit unions were subject to various organizational transformations. Their regeneration in Poland took place in the early 90s of the 20<sup>th</sup> century in the form of the Credit Unions. The non-banking financial institutions of Poland – credit unions and the National Credit Union – take investment and financial decisions. These decisions are related to their finance management. Investment decisions are not a uniform category. The credit unions can take decisions concerning the realization of material and financial investments which are limited by law. The limitation in the sphere of financial investments concern also the National Credit Union. The National Credit Union can take decisions concerning the realization of material investments. The Credit

unions and the National Credit Union can make decisions regarding the third kind of investments – non-material. Credit unions and the National Credit Union may take up various attitudes towards the investment risk. Financial decisions are determined by operational and investment activity of the mentioned financial institutions. Different is the scope of investment and financial decisions of credit unions and the National Credit Union. There are external and internal as well as mixed internal-external factors influencing at the present moment the investment and financial decisions of credit unions and the National Credit Union. Future changes within the investment and financial decisions of credit unions and the National Credit Union in Poland may be determined, among other factors, by the accepted model of development of these financial institutions – the *Model of Quantity-Quality Changes (MQQC)* or the *Banking Model (BM)*.

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