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**Article**

## Review of current trends in shaping financial knowledge

e-Finanse: Financial Internet Quarterly

**Provided in Cooperation with:**

University of Information Technology and Management, Rzeszów

*Suggested Citation:* Gemzik-Salwach, Agata (2012) : Review of current trends in shaping financial knowledge, e-Finanse: Financial Internet Quarterly, ISSN 1734-039X, University of Information Technology and Management, Rzeszów, Vol. 8, Iss. 1, pp. 102-107

This Version is available at:

<https://hdl.handle.net/10419/66768>

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# REVIEW OF CURRENT TRENDS IN SHAPING FINANCIAL KNOWLEDGE

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## Abstract

*The activity of local government units requires them to constantly deepen the financial knowledge and competence of their employees. This article presents review of current trends in shaping financial knowledge of local government units in Poland. The first part of this paper shows trends concerning sources of gaining financial knowledge. The second part shows the most interesting areas of financial knowledge. The third part contains the review of the most popular financial knowledge sharing methods.*

**JEL Classification:**I21, I22, H76

**Keywords:** financial knowledge, local government units, trends in shaping financial knowledge

Received: 14.11.2011

Accepted: 30.03.2012

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## Introduction

Many current studies show that the offer and the complexity degree of the financial products sold in the Polish market do not basically diverge from those of products offered in the developed countries. At the same time, the level of knowledge in finance and basics of economy in our country may be qualified as generally poor. This results from the fact that the Polish economy has remained in transformation since 1989, and financing education was not the main object of interest to the government of that time (Iwanicz-Drozdowska, 2009, p. 6). Financial markets are currently the ones developing most dynamically in the world, new financial instruments appear all the time, which brings an increased need of education in finance, both as concerns the possibilities of using financial innovations and as concerns methods and products limiting the risk.

The changes which are taking place in the sphere of financial markets are directly reflected in the processes of shaping financial knowledge of local government units. Today, local governments dispose of a whole range of various financial instruments to use, becoming both a giver and a donor of capital. A local unit may enter the financial market directly (participating in the financial market and influencing the transactions occurring there) and indirectly (making transactions in the market by the agency of such institutions as: banks, brokerage offices, etc.) (Filipiak and Flejterski, 2008, p. 51). New products available in the market give greater possibilities, but at the same time they imply the need to raise the level of financial knowledge. In consequence, the possibilities of using the new financial instruments should become the focus of interest of local government units.

## Trends concerning sources of gaining financial knowledge

Currently, the biggest and most important source of gaining any information, including financial, is the Internet. More and more frequently, within the strategy of social responsibility of

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business, beside for environmental protection activities, culture propagation and charity actions, various financial institutions take measures to educate the society, including education in the area of finance. One of the most frequently used channels of conveying such information are websites (Iwanicz-Drozdowska, 2011, p. 266-276). Direct interviews with local government units' employees indicate that also in that group the Internet is the first source where they seek solutions to problems related to finances<sup>2</sup>.

Another medium that Poles would like to take their financial knowledge from is television, which results from its popularity and availability. Research conducted by the Kronenberg Foundation shows that as many as 56% of respondents obtain their knowledge from TV informational programmes, and 61% would like to obtain knowledge on finances from TV programmes. In particular the older generation expects television to provide information on financial knowledge. Younger people usually prefer the Web. However, television does not satisfy the need for specific financial knowledge necessary in the LGUs' activity. Other sources of gaining financial knowledge that are willingly used by the society are radio programmes, courses and trainings, and financial consultancy (The Kronenberg Foundation in Citi Handlowy, 2009, p. 110 and 113).

An important way of gaining financial knowledge is participation in specialist training. The extent of LGU employees using training and specialist courses may be shown by the percentage of expenditure for education and vocational development in total work costs. Comparing that value for various kinds of business activity, it is noticeable that in the period of 2004-2008 the index grew the most in units active in healthcare (from 0.3% to 0.9%), services (from 0.4% to 0.5%) and also in the public administration units (from 0.5% to 0.8%). In other kinds of activity, the share of expenditure on education and vocational development in work costs decreased or remained unchanged. The public administration sector, including the local government sector, was third as concerns the increase of expenditure on education. The reason for increased expenditure may be using the training fund created at employers' initiative, which brings additional tax-related benefits (Bagieńska, 2011, p. 8-10).

Specialised consultancy companies currently offer practically all kinds of training adjusted to the needs of local government units. Yet the few studies on the impact of the recent crisis on trainings on a European scale show that internal training is more popular than courses outside of the organisation, due to the cost reduction connected with such a choice. The data also indicate that more common are short trainings focused on a particular issue. Smaller dependence of the LGUs on training companies, whose services are becoming more and more expensive, at the same time supports the making of considerable savings (European Foundation for the Improvement of Living and Working Conditions, 2011). Empirical analyses show that another form of further education and raising qualifications that is very popular among LGU employees are post-graduate studies. To gain financial knowledge one can also use the experience of other employees of the LGU. A report from research on local government units' preparation to apply for means within the Regional Operational Programme for the Lower Silesian Voivodship, ordered by the Managing Body of the Regional Operational Programme, mentions implementing the mutual competence raising programme among one of the good practices in strengthening the human resources in the area of financial knowledge. Ensuring constant company of a technical advisor to people with smaller experience gives good results and allows to gain valuable experience in performing responsible tasks without the risk of making mistakes due to insufficient knowledge (Project and Consulting Group, 2008, p. 4). This solution is, however, only partially implemented in

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<sup>2</sup> Skica's research (interviews with commune employees).

Polish local government units, and the presented arguments indicate that it could considerably increase the effective performance of public tasks.

Financial knowledge experience exchange between particular local government units is also an underrated and unexploited source of information. The LGUs work together in that area to a very small extent. To improve the condition of financial education, the Commission of the European Communities recommends creating a network of entities with practical experience in financial education. The task of such a group would be among others to exchange and support the best practices in financial education<sup>3</sup>. This idea could be a good solution also for local government units. Yet such solutions do not enjoy much interest on the part of local government structures, and in the majority of cases any such information is conveyed in an informal way.

### **Trends in areas of interest in financial knowledge**

In the light of the changes happening in the world, such as: the appearance of ever more sophisticated financial instruments, globalisation, growing risk and the economy's susceptibility to crises, financial education becomes an extremely important aspect. Local government units should have the knowledge and abilities allowing them to use the new instruments, while at the same time maintaining limited risk. The diversity of financial products and the complexity level of the available instruments make also the area of the LGUs' interest in financial knowledge change. The LGUs' interest in new financial products and the risk related to them is a clear increasing trend here.

The possibilities of local governments using the rich offer of financial products are mainly defined in the act on public finance (Dz. U., 2009), in the act on the income of local government units (Dz. U., 2010) and other legal regulations for conducting financial settlements. The regulations limit the freedom to use financial services, but also guarantee financial security of a local government unit (Filipiak and Flejterski, 2008, p. 51). Yet in spite of that, the scope of financial services used by local government units systematically evolves. The pace of that evolution is, however, still too slow.

Results of various studies show that the local government sector is far more interested in services financing its activity than in deposit services. Currently the ones used most often are long-term crediting, preferential financing and overdraft facilities. A lesser role is played by credits strictly for investments and credits meant to finance transient deficits. Among deposit services, the most popular are auxiliary accounts and short-term deposits (Filipiak and Flejterski, 2008, p. 62). What is important, the LGUs' area of interest includes products from the new and still broadening offer of the financial sector addressed to that group of entities. New products and services are sought which would increase the effectiveness of using the resources possessed, in particular financial ones. Despite a relatively low income, the LGUs often realise ventures of a relatively high value (Project and Consulting Group, 2008, p. 4), and lack of thorough financial knowledge effectively lowers not only the efficiency, but also the security of performing public tasks. Thus a certain dissonance may be indicated in the LGUs' interest in new financial products. On the one hand it is relatively high, and on the other still visible is the cultivation of proven practices, instruments and solutions. The presented attitude of LGU authorities seems to contradict the natural trends of market evolution, and poses a threat to effective public expenditure and managing public money. Research shows that local government units are interested mostly in issuing securities. Until recently, the LGUs have not shown interest in this way of gaining capital, and now it is the area of knowledge most desired by local governments. Other financial products as to which local governments seek additional information due to the complexity of the accompanying venture,

<sup>3</sup> See more in: Commission of the European Communities (2007).

include: securitisation, public-private partnership, leasing and factoring. Other such products are: comprehensive general liability insurance, *bancassurance*, or guarantees (Dylewski, Filipiak, Gorzałczyńska-Koczkodaj, 2006, p. 197). Also electronic banking enjoys much interest. All the while, regardless of the presented arguments the problem of financing the LGUs remains the same. Even if they are interested in new solutions in financing public tasks, their approach to using them in practice does not change. At the same time (as proved by direct interviews with local government sector employees), theoretical knowledge not only fails to accompany practice, but is fragmentary in itself. In other words, the LGUs do not have full knowledge on financial instruments. One may thus risk a statement that the said lacks in knowledge are one of the reasons that the LGUs abstain from innovative forms of financing public tasks.

### **Trends in the ways of conveying financial knowledge**

The knowledge of local government units in the area of finance is more and more frequently supplemented thanks to the consultancy companies they hire. Financial consultancy and training concern both the ways of obtaining capital and of investing free financial means. Among the ways in which training companies teach local government units the financial knowledge, three major trends may be defined:

- 1) offering tailored products,
- 2) comprehensive approach to the customer,
- 3) using distance learning courses.

Tailored products are now a commonly accepted standard in the offer of consultancy companies. Personalised training customised to fit individual needs is offered to various business entities, including also local government units. Offers addressed to local governments show a clear departure from one standard product towards adjusting to the customer's needs. Created are such types of training as are expected by the local government units. Such activities are often named "close-to-customer" activities or "customer penetration" (Filipiak, 2008, p. 17).

Beside individual approach to the customer, local government units often coerce consultancy institutions to provide comprehensive offers of various trainings and consulting services useful in their activity. Often training is sold in packets combining financial knowledge with other areas of the LGUs' activity (Filipiak, 2008, p. 17).

In training offers addressed to the LGUs, there appear more and more often proposals to obtain financial knowledge through e-learning programmes. Although for now traditional training forms are chosen more often by the LGUs, it must be noted that the number of available trainings of the type in the market systematically grows. The increasing popularity of teaching with the use of e-learning and computer networks stems from their availability, flexibility and capacity to adapt *ad hoc* to the arising needs. Significant are also the low costs of education conducted in the distance learning formula (Bagieńska, 2011, p. 6).

Finally, a tendency brought to Poland from Western countries is the treatment of financial training by employers as part of the employee package. As recently as a decade ago, in the countries of Western Europe the impulse to start employee trainings were changes occurring in the company and the need to adapt to them. Today the occurrence of those determinants does not play the main role anymore. Currently almost all companies make the possibility to participate in employee training and vocational qualifications raising programmes to the key part of the benefits package they offer. The phenomenon is much more visible in our market in relation to enterprises than as concerns local government units. However, the role of public managers

in the LGUs cannot be limited only to being viewed as village heads or town or city mayors. Considering the LGUs' environment created by the organisational units they build, such as non-budgetary economy units or communal companies, the above indicated trends will certainly be transposed to the level of local government activity.

## Conclusions

The activity of local government units undoubtedly requires them to constantly deepen the financial knowledge and competence of their employees. With regard to the results of the above quoted studies, noticeable is the increased expenditure on employee training listed in work costs. This proves that the trainings are financed by employers, and thus that the employers notice the need for and significance of investing in their employees' vocational qualifications. The LGUs' interest in financial knowledge focuses on new financial instruments and management and risk limitation methods. From among the diverse financial products and services, local governments are most interested in tools for gaining means to finance their activity, in particular the less known and more complex ones. Still, that interest does not translate into practice. This means that the costs borne on raising qualifications do not find their reflection in the reality. They are thus an unjustified expense. Expenditure on gaining knowledge is crowned with documents confirming having the knowledge, but on the other hand that knowledge is not applied in LGU activity. Such realities indicate a certain pathology in thinking about raising qualifications concerning financial knowledge in the LGUs. The limited availability of employees due to trainings, in connection with the costs borne on financing the trainings should be reflected in practical application of the knowledge gained. One of the basic recommendations is thus – next to the very need to increase the knowledge – is also to apply the gained knowledge in the LGUs' activity. Only after combining the two actions one may be able to speak of the LGUs' financial knowledge not in the categories of theory, but in the practical aspect, i.e. as a real added value.

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