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## ARTICLES

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Rafał Czupryn<sup>1</sup>, Amanda Majchrowska-Szewczyk<sup>2</sup>

### **EMPIRICAL DETERMINANTS OF THE RELATIONSHIPS BETWEEN CAPITAL MARKET DEVELOPMENT AND ECONOMIC GROWTH**

#### **Abstract**

In this article, a comprehensive review of empirical studies exploring the relationship between capital market development and economic growth is presented. The analysis includes a detailed examination of four theoretical approaches: causal independence, demand-following, supply-leading, and feedback loop hypotheses. Utilizing diverse econometric methods and data from various countries, the findings highlight the complexity and variability of the relationship, influenced by measurement methodologies and specific economic contexts. This study underscores the importance of capital market indicators and their differentiated impacts on economic growth, depending on the structure of the banking and stock market sectors. The results contribute to the understanding of how capital market development interacts with economic growth, offering valuable insights for both developed and developing economies. The article also emphasizes the necessity for further research that incorporates global trends, regulatory environments, and institutional frameworks to deepen our understanding of these relationships.

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### **Introduction**

Based on the research conducted by Schumpeter (Schumpeter, 1934, p. 66), Goldsmith (Goldsmith, 1969), Shaw (Shaw, 1973), and McKinnon (McKinnon, 1973), numerous research teams over the past few decades have employed various econometric methods and datasets to investigate the relationship between capital market development and economic growth. The purpose of this article is to examine the existing empirical body of work on this subject and to attempt a classification of the degree of interrelations between capital market development and economic growth. For each category, the applied data, the research period, the studied countries, the dependent and independent variables, as well as the econometric models used will be discussed, including any pertinent remarks.

The empirical findings reveal discrepancies regarding the relationship between capital market development and economic growth. While some researchers have focused on testing the relationships and mechanisms through which capital market development influences economic growth, others have directed their studies toward the causal relationship between capital market development and economic growth variables. Diverse empirical studies have aimed to identify which capital market institutions best explain economic growth. Researchers have sought answers to numerous questions to determine whether the capital market and economic growth are interconnected and whether fostering the development of the capital market as a policy could benefit a country by stimulating economic growth.

### **1. Independence between the process of capital market development and economic growth**

The perspective of causal independence argues that there is no causal relationship between the capital market and economic growth (Stiglitz, 1985, pp. 133-152). However, it is worth noting that the vast majority of the economies analyzed to construct this perspective pertain to developing countries located in the Middle East and North Africa (MENA) region.

R. Ram (Ram, 1999, pp. 164-174) utilized annual data from 95 countries spanning the period from 1960 to 1989. He examined the relationship between financial development, measured by the ratio of liquid liabilities to GDP, and economic growth, measured by real GDP growth, using multiple

regression analysis for both the full sample and selected countries. The primary estimated model revealed significant cross-country differences in the relationship between financial development and economic growth. Multiple regression estimates for individual countries did not indicate a positive relationship between financial development and economic growth.

S. Abu-Bader and A.S. Abu-Qarn (Abu-Bader & Abu-Qarn, 2006, pp. 6-9) identified a weak relationship between capital market development and economic growth in their empirical studies of the MENA region over the period 1960-2004, employing the vector error correction model (VECM) methodology. They concluded that there is no significant relationship between capital market development and economic growth. This finding is partly attributable to the fact that the relationship between banking development and economic growth is even negative when stock market development is taken into account.

S.E. Mohamed (Mohamed, 2008) investigated the short- and long-term relationships between financial development and economic growth in Sudan. The study, covering annual data from 1970 to 2004, applied the autoregressive distributed lag (ARDL) modeling method. The author specifically utilized two indicators of financial development: the ratio of M3 to GDP (M3Y) and credit extended to the private sector by commercial banks as a percentage of GDP (CBS). The findings revealed that financial development variables negatively affect real GDP. The M3Y coefficient was found to be negative and statistically significant at the 1% level, while the CBS coefficient was also negative but statistically insignificant. The author attributed these findings to the inefficient allocation of resources by banks, the lack of an appropriate investment climate, and the poor quality of credit sales in Sudan's banking sector.

The empirical studies of S. Ewah, A. Esang, and U. Bassey (Ewah et al., 2009, pp. 219-228) aimed to explore the relationship between the efficiency of the capital market and economic growth in Nigeria over the period 1961-2004. The authors employed multiple regression analysis and the ordinary least squares (OLS) method. They found no significant relationship between capital market development and economic growth.

B. Ake and R.W. Ognaligui (Ognaligui, 2005, pp. 82-88) applied Granger causality tests to examine the causal relationships between the stock market and economic growth in Cameroon using quarterly time series data from 2006 to 2010. The results indicated that the Douala Stock Exchange does not influence Cameroon's economic growth. However, the Cholesky variance decomposition (VDC) test provided evidence that market capitalization positively affects GDP. They recommended that it is time for the Cameroonian government to implement financial policies that encourage companies and foster a stock market culture, prompting firms

to initiate initial public offerings (IPOs) on the stock market rather than relying on bank loans when seeking funds to expand their investments.

## **2. Economic growth as a determinant of capital market development**

The second group of views, often referred to as the *demand-following theory*, posits that capital market development occurs as a consequence of economic growth. According to this approach, economic growth leads to increased demand for diverse financial instruments and services, which in turn stimulates the development of the capital market (Robinson, 1952).

As the economy evolves, businesses, investors, and other economic actors seek increasingly sophisticated and flexible financial instruments to address growing financial needs. In response to this heightened demand, capital markets begin to offer a range of new services and products, such as equities, bonds, derivatives, and investment funds, which facilitate capital mobilization, risk diversification, and optimal resource allocation.

The demand-following theory also emphasizes that capital market development is a result of structural changes occurring within the economy. As the economy becomes more complex and diversified, it necessitates more efficient mechanisms for transferring capital across sectors and entities. Therefore, the development of the capital market is viewed as an outcome of meeting the rising financial needs of market participants, driven by the process of economic growth (Hugh, 1966, pp. 174-189).

Consequently, it is argued that the priority for governments should be to focus efforts on stimulating economic growth through structural reforms, such as privatization, labor market deregulation, tax system changes, and legal and regulatory reforms aimed at creating favorable conditions for private sector development. Capital market development will then follow naturally as market participants demand more advanced financial instruments to achieve their investment and financial objectives.

H. Zang and Y.C. Kim (Zang & Kim, 2007, pp. 15-19) conducted panel data tests to determine the direction of the causal relationship between capital development and economic growth. They employed Sims-Geweke causality tests on panel data consisting of seven time periods across 74 countries spanning the years 1961-1995. Their findings indicated that economic growth leads to capital market development. However, this study only considered credit market variables, which do not fully represent the capital market.

V. Athanasios and A. Antonios (Athanasios & Antonios, 2010, pp. 33-42) investigated the causal relationship between capital market development and economic growth in Italy for the period 1965-2007 using the vector error correction model (VECM). The results of Granger causality tests



demonstrated a unidirectional causal relationship running from economic growth to stock market development variables.

N. Odhiambo (Odhiambo, 2010, pp. 205-219) examined the dynamic causal relationship between capital market development, investment, and economic growth in South Africa using the autoregressive distributed lag (ARDL) model. The findings indicated that, overall, economic growth significantly influences capital market development. The study also revealed a clear unidirectional causal flow from economic growth to investment. The research recommended that the government of South Africa intensify pro-growth policies to enhance investment and capital market development.

### **3. Capital market development as a determinant of economic growth**

According to the *supply-leading theory*, an efficiently functioning capital market plays a pivotal role in supporting economic growth through resource allocation. Capital markets facilitate the transfer of capital from economic units with surplus funds to those requiring additional resources to finance their investment or operational activities (Jung, 1986, pp. 333-346).

Empirical studies have repeatedly shown that capital market development is not only a strong predictor but also a leading driver of economic growth. The majority of findings in this field pertain to developing countries, although some studies have been conducted on developed economies as well. The analyzed periods often exceed 20 years, with time series data being the most commonly utilized. While some studies employed multidimensional vector autoregression models, others used two-dimensional models, generalized method of moments (GMM), fully modified ordinary least squares (FMOLS), and cointegration with ARDL bounds testing.

M. Leahy et al. (Leahy et al., 2001) supported the view that capital market development is crucial for stimulating economic growth through its relationship with investment, using three different indicators of capital market development: liquid liabilities, private credit extended to the private sector, and stock market capitalization. They applied an unbalanced panel dataset for 19 OECD countries from 1970 to 1997 and employed four different estimation techniques (dynamic fixed effects, mean group estimator, pooled mean group estimator, and static fixed effects estimator). Their empirical results indicated that stock market capitalization had the strongest effect, although private credit provided by deposit banks was also significant.

R. Czupryn and Ł. Wójtowicz (Czupryn & Wójtowicz, 2021, pp. 5-14) investigated the impact of the capital market on economic growth in the United States between 1975 and 2019. Using annual data and advanced econometric models, the authors demonstrated a significant impact of stock market capitalization and the number of listed companies

on GDP growth dynamics. Their findings indicated that capital market development promoted effective capital allocation, contributing to economic growth. The authors emphasized that the mature and deep U.S. capital market played a crucial role in creating economic value, forming the foundation for long-term economic growth.

Mishra (Mishra, 2010, pp. 130-138) examined the effect of capital market efficiency on economic growth in India using quarterly time series data on market capitalization, total market turnover, and stock price indices from 1991 to 2010. The application of multiple regression models indicated that the Indian capital market has the potential to contribute to economic growth. This potential stems from the market's high capitalization and relatively high liquidity. Mishra suggested that market organization and regulations should attract a large number of domestic and foreign investors, enabling optimal resource allocation to ensure sustainable national development.

A. Wong and X. Zhou (Wong & Zhou, 2011, pp. 111-115), based on their empirical research, suggested that stock market development in China, the USA, the UK, Japan, and Hong Kong exhibits a strongly positive correlation with economic growth. Using a panel data model for the period 1988-2008, the authors concluded that stock market development is a key driver of economic growth in both developed and developing countries, regardless of their financial system modes, stages of economic development, or economic system types.

The study by N. Ellahi and M.A. Khan (Ellahi & Khan, 2011, pp. 76-91) analyzed the relationship between financial sector development and economic growth in four major South Asian Association for Regional Cooperation (SAARC) countries-Bangladesh, India, Pakistan, and Sri Lanka. Using annual time series data from 1975 to 2009, the study applied the ARDL approach to test for long-term relationships between financial development and economic growth. The findings showed that financial reforms undertaken by these countries effectively enhanced savings and capital accumulation. Moreover, a strong positive relationship between financial sector development and economic growth was observed for India, Pakistan, and Sri Lanka, while for Bangladesh, the relationship was negative and significant.

In their study, U.B. Alajekwu and A.A. Achugbu (Alajekwu & Achugbu, 2012, pp. 51-70) examined the role of stock market development in Nigeria's economic growth using 15 years of time series data from 1994 to 2008. Employing the ordinary least squares (OLS) method, they found that market capitalization and value turnover ratios exhibited a weak negative correlation with economic growth, while the turnover ratio showed a strong positive correlation. Market capitalization also displayed a strong positive correlation with stock turnover ratios. These findings suggested that liquidity tends

to stimulate economic growth in Nigeria and that market capitalization influences market liquidity. However, the authors cautiously concluded that stock market size is not a significant determinant of economic growth due to collinearity in the applied data.

A. Weinert and R. Czupryn (Weinert & Czupryn, 2023, pp. 137-145) analyzed the impact of the capital market on Austria's economy from 1975 to 2020 using econometric methods with historical data. Their study confirmed that capital market development, including the growth of stock market capitalization and investment activity, had a significant impact on Austria's economic growth. The authors highlighted that the capital market acted as a catalyst for long-term investments, supporting enterprises in implementing development projects. They also emphasized that stable institutional frameworks and the increasing role of the capital market enabled more efficient resource allocation, thereby fostering sustainable economic growth.

#### **4. Bidirectional interdependence between economic growth and capital market development**

The feedback loop hypothesis posits the existence of a bidirectional causality between capital market development and economic growth (Hugh, 1966, pp. 174-189). According to this approach, a country with a well-developed capital market can stimulate substantial economic expansion through technological advancements and innovations in products and services, which in turn increase the demand for financial institutions. When financial institutions effectively respond to this demand by facilitating the financing of new projects and reducing transaction costs, these changes further enhance economic performance.

As a result, both the capital market and economic development exhibit a positive interdependence, mutually reinforcing one another and contributing to long-term economic growth (Majid, 2007, pp. 161-184). Numerous empirical studies have focused on developing countries, where the potential for capital market development is particularly critical for economic growth. Researchers frequently employ advanced econometric techniques, such as ARDL cointegration and VAR models, to examine the existence of such feedback mechanisms (Al-Yousif, 2002, pp. 131-150).

P. Demetriades and K. Hussein (Demetriades & Hussein, 1996, pp. 387-411) conducted causality tests on the relationship between financial development and real GDP for 16 countries: Costa Rica, El Salvador, Greece, Guatemala, Honduras, India, Korea, Mauritius, Pakistan, Portugal, South Africa, Spain, Sri Lanka, Thailand, Turkey, and Venezuela. They discovered a bidirectional causal relationship between financial development and real GDP. The authors suggested that economic policy is country-specific and depends

on the effectiveness of the institutions implementing it. Therefore, the view that "finance leads growth" cannot be universally accepted, nor can the notion that "finance follows growth" be entirely embraced.

Majid (Majid, *op. cit.*) further examined the short- and long-term dynamics between capital market development, inflation, and economic growth during the financial crisis in Thailand after 1997 using time series data. Based on ARDL modeling, the study demonstrated long-term equilibrium among financial depth, inflation, and growth. Granger causality tests within a VECM framework revealed a bidirectional causality between financial growth and economic growth in Thailand, consistent with the "feedback hypothesis." The results indicated that changes in economic growth largely depend on its own innovations. The author recommended prioritizing long-term policies to promote growth, including strengthening existing financial institutions in both the banking sector and stock markets while maintaining low inflation rates.

Al-Malkawi, Marashdeh, and Abdullah (Al-Malkawi et al., 2012, pp. 105-117) investigated the empirical relationship between financial development and economic growth in the United Arab Emirates from 1974 to 2008 using ARDL cointegration analysis. The results revealed a negative and statistically significant relationship between financial development, measured by broad money supply (M2/GDP) and bank credit to the private sector, and economic growth. The study also found evidence of bidirectional causality among the three variables.

S.I. Bukowski (Bukowski, 2012, pp. 39-52) analyzed the interdependence of financial market development and economic growth in 12 eurozone countries (Italy, Austria, Portugal, Belgium, Germany, Finland, Luxembourg, France, Ireland, Greece, the Netherlands, and Spain). Employing a multi-equation model of independent equations, the analysis revealed statistically significant and observable bidirectional effects of stock market and corporate bond market capitalization on real GDP growth. However, the author noted that the strength of this bidirectional relationship could vary depending on the economic situation and the structure of a country's financial market.

Ł. Wójtowicz and R. Czupryn (Wójtowicz & Czupryn, 2023, pp. 175-185) analyzed the impact of the capital market on economic growth in Luxembourg for the period 1975-2020. Using advanced econometric models, they accounted for the complexity of the relationships between the capital market and GDP. The study demonstrated that capital market development, expressed through increased stock market capitalization and capital investments, played a significant role in shaping economic dynamics. The findings highlighted a strong bidirectional relationship in Luxembourg, where economic growth supports capital market development, and a dynamically evolving capital market positively influences

the economy. The authors emphasized that such interactions are particularly critical in highly developed economies that benefit from both internal economic activity and international financial integration.

Athapathu and Jayasinghe (Athapathu & Jayasinghe, 2012, pp. 83-92) explored the causal relationship between stock market performance and economic growth in Sri Lanka using time series data for the period 1997-2008. The analysis employed econometric methods such as cointegration analysis, error correction mechanisms, and Granger causality tests. Their findings aligned with the feedback hypothesis. Despite the authors' assumption that economic growth is driven by stock market performance, the results indicated evidence of reverse causality, where economic activity also influences stock market performance.

### **5. Partial dependence between the process of capital market development and economic growth**

Numerous studies (Filer et al., 2003, pp. 753-773; Arestis et al., 2001, pp. 16-41; Yartey & Adjasi, 2007) have explored the mixed findings concerning the relationship or causality between capital market development and economic growth in terms of the type of capital market. According to these studies, bank-based and stock market-based development significantly and differently affect economic growth. This distinction may explain why some countries exhibit a positive relationship between capital market development and economic growth, while others do not.

Most empirical studies have focused on developing countries where both stock markets and banking sectors coexist. These studies predominantly employed VAR and VECM methodologies. The dependent variable in most studies was an economic growth indicator, typically real GDP or total factor productivity (TFP). Independent variables included both banking sector and stock market indicators, with some studies incorporating additional variables such as inflation rates, government consumption, and human capital indices. Stock market liquidity and the M3/GDP ratio were commonly used as proxies for stock market and banking sector indicators, respectively. However, it is challenging to identify a universally preferred measure of capital market development, as different empirical studies utilized distinct indicators. Notably, both banking and stock market development indicators were used separately, resulting in mixed findings.

A.A. Bolbol, A. Fatheldin, and M.M. Omran (Bolbol et al., 2005, pp. 171-194) examined the financial structure of Egypt and its relationship with total factor productivity (TFP) from 1974 to 2002. Their findings indicated that bank-based indicators had a negative effect on TFP unless tied to a threshold income level, while market-based indicators positively impacted TFP through private net resource inflows. The study emphasized that expanding

the financial sector to include a securities market benefited TFP and growth in Egypt.

M. Kar and E.J. Pentecost (Kar & Pentecost, 2000) investigated the direction of causality between financial development and economic growth in Turkey, using annual data from 1963 to 1995. Causality analysis conducted via a bivariate VECM revealed unidirectional causality from economic growth to financial development. Notably, the causality direction depended on the choice of financial development indicator. For instance, when financial development was measured by the money-to-income ratio, the direction of causality ran from financial development to economic growth. However, using alternative indicators such as bank deposits, private credit, and domestic credit, the findings indicated an increasing influence of financial development on the economy.

D. Sinha and J. Macri (Sinha & Macri, 2009) analyzed the relationship between financial development and economic growth using time series data for eight Asian countries. First, they estimated augmented production functions that included a financial development variable. Second, they conducted multivariate causality tests between income growth rates and financial development variables. Regression results revealed a positive and significant relationship between income and financial variables for India, Malaysia, Pakistan, and Sri Lanka. Multivariate causality tests showed bidirectional causality between income and financial variables for India and Malaysia, unidirectional causality from financial variables to income for Japan and Thailand, and reverse causality for Korea, Pakistan, and the Philippines. Thus, their findings did not universally confirm a clear and positive relationship between financial development and economic growth.

C. Dritsaki and M. Dritsaki-Bargiota (Dritsaki & Dritsaki-Bargiota, 2005, pp. 113-127) used a trivariate VAR model to examine the causal relationship between stocks, the credit market, and economic growth in Greece. Employing monthly data from January 1988 to December 2002, the results revealed unidirectional causality from economic growth to the stock market and bidirectional causality between economic growth and the banking sector. No causal relationship was observed between stock market performance and the banking sector.

A.E. Akinlo and T. Egbetunde (Akinlo & Egbetunde, 2010, pp. 17-28) investigated the long-term causal relationship between financial development and economic growth in ten Sub-Saharan African countries from 1980 to 2005. Using VECM, the study demonstrated a correlation between financial development and economic growth in the selected countries. The findings indicated that financial development drives economic growth in the Central African Republic, the Republic of Congo, Gabon,

and Nigeria, while economic growth drives financial development in Zambia. Bidirectional causality between financial development and economic growth was found in Kenya, Chad, South Africa, Sierra Leone, and Swaziland. The results underscored the need for financial sector development through appropriate regulatory and macroeconomic policies.

### **Conclusion**

The article provides a comprehensive review of empirical studies examining the relationship between capital market development and economic growth. Based on an established research classification, four main approaches are discussed: causal independence, demand-following, supply-leading, and feedback loop hypotheses. The analysis highlights the diverse findings of these studies, which stem from varying methods of measuring capital market development and the unique economic contexts of the countries studied.

The article underscores the critical role of capital market development indicators, which can have differing impacts on economic growth depending on the characteristics of the banking and stock market sectors. These differences may explain why a positive relationship between capital market development and economic growth is observed in some countries but not in others.

The authors emphasize the need for further research that accounts for the diversity of economic models, institutional frameworks, and levels of financial regulation. Comparative analyses between countries at different stages of economic development are particularly valuable, as they could provide insights into the factors that foster synergy between capital market development and economic growth.

Future research should also consider global trends, such as shifts in monetary policy, financial crises, and increasing international market integration. These factors can significantly influence the functioning of capital markets and their relationship with economic growth, making them critical components of any comprehensive analysis of these dynamics.

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## ARTICLES

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### The importance of the capital market in China

#### Abstract

The purpose of the publication was to analyze the significance of the functioning capital market in China over a long period of time. The paper discusses the basic models of financial systems, measures of capital market development, as well as the specifics of the functioning of the capital market in China. Then, an analysis of selected financial indicators of the financial market (including the capital market) of China against the market of the United States was made. Statistical data obtained from the following databases were used to conduct the analysis: Financial Structure Database and Global Financial Development Database. These were annual data from 1992 to 2021.

**Keywords:** capital market, China, financial indicators.

**JEL classification:** G10.

**Paper type:** Research article.

#### Introduction

The capital market is part of the financial system, or more precisely, one of the segments of the financial market. In the literature it is defined in many ways. Authors focus on the complexity of the mechanisms of the capital market and the laws that regulate it. R. Blicharz believes that the capital market "encompasses a *set of mechanisms, infrastructure*

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*and rules, allowing to conduct an exchange of certain goods and values, which in the capital market are usually funds and financial instruments"* (Blicharz, 2013, p. 19). Other authors, such as F.S. Mishkin and S.G. Eakins, focus on the long-term nature of transactions. Stating that in the capital market "*long-term debt instruments with a maturity of at least one year and equity instruments are traded*" (Mishkin, Fakins, 2018, p. 60). At this point it should be recalled that an extremely important part of the capital market is the securities market. It is characterized by a wide range of financial instruments. What is more, it is characterized by high liquidity of exchange and over-the-counter transactions, moreover, it allows through it to acquire capital and multiply it (Daniluk, 2010, pp. 84-85).

In developed market economies, the securities market plays an important role in the financial systems of these economies. Through its functions, it enables the mobilization of capital, its transformation and valuation. The securities market facilitates the allocation of capital of those who have it in excess (have savings) to those who demand it. Stock exchanges, by virtue of their function of concentrating capital, enable the supply and demand sides to come into contact. Everything takes place under strictly defined and clear conditions. A well-developed securities market influences the creation of favorable conditions for economic growth in a given economy, by affecting the level of investment and savings and absorbing economic shocks (Pszczółka, 2013, pp. 75-77).

The purpose of this paper was to analyze the significance of China's functioning capital market over the long term. The paper focused on examining the long-term trend. The analysis of the problem was based on two pillars. The first was an analysis of the literature treating financial systems, measures of capital market development, as well as an analysis of the environment and conditions of the functioning capital market in China. The second was the analysis of selected financial indicators of the financial market (including the capital market) in China against the United States market. To achieve the goal, a comparative analysis of collected data extracted from the *Financial Structure Database* (World Bank, Financial Structure Database, 2024) and the *Global Financial Development Database* (World Bank, Global Financial Development Database, 2024) was used. These were annual data from 1992 to 2021.

This paper focuses on the capital market in China, but here it should be clarified that this should be understood as mainland China, i.e. Shanghai and Shenzhen. Consequently, a separate market located in Hong Kong – which is a Special Administrative Region of the People's Republic of China (PRC) – has been omitted.

## 1. Basic models of financial systems

The development of financial systems has resulted in two basic models of financial systems that operate in modern economies (Fallen, Gale, 2001, pp. 153-190):

- Anglo-Saxon – also known as a market-oriented system,
- Continental – also known as a bank-oriented system.

In the Anglo-Saxon model, the financial market and its segments compete strongly with the banking sector and play an essential role in the redistribution of financial resources in the economy (Osiński et al., 2004, p. 14). The key place in the redistribution of financial resources is occupied by investment banks and the stock market – through the issuance of securities (Banaszczak-Soroka, Zawadzka, 2012, p.16). The financial market plays a central role in this system in the allocation of capital. In addition, it facilitates comprehensive risk management, through market signals that allow investors to assess risk, as well as the profitability of investments and businesses. Analytical firms associated with the financial market provide information to the entire market (Osiński et al., 2004, p. 14).

In the continental model, banks play a key role. They collect information about companies, as well as company executives. Then, after analyzing the acquired information, they allocate capital. This makes this allocation more efficient. Banks also provide the opportunity to manage various risks. In this case, this is reflected in the intensified efficiency of investment activities in the economy. Moreover, they also play an important role in capital mobilization. By financing ventures to take advantage of economies of scale (Marcinkowska et al., 2014, pp. 26-27). Banks are also a major component of money transfer through credit and loans (Banaszczak-Soroka, Zawadzka, p. 16).

Certain factors influence the formation of an optimal financial system model in a country. First, there is the level of economic development of the country. For countries with a growing GDP *per capita*, there is a tendency to evolve towards the Anglo-Saxon model. This is due to the fact that financial markets have a more diverse, as well as more flexible way of financing, and on the other hand, allow for more efficient placement of funds. Another factor is the risk appetite of economic agents (businesses and households) of the system. Cultural conditions are key in this regard. In this case, the creation of more favorable conditions for the development of a market-oriented system is influenced by the greater risk appetite shown by participants of the financial system. The next factor is the choice of forms of financing by enterprises. This is an extremely important issue. It has a decisive impact on the development of the financial market and/or the banking system. Another important factor is also the effectiveness of the legal system that regulates the operation of financial markets, as well

as the legal system that protecting shareholders. In this case, legal solutions that allow the effective application of the law in the capital market area create more favorable conditions for a market-oriented system (Osiński et al., p. 15).

As examples of countries with the Anglo-Saxon model, where the ratio of stock market capitalization to GDP is higher than the ratio of bank credit to GDP, the United States, the United Kingdom, as well as Canada, Switzerland are most often cited. For the continental model, on the other hand, examples include countries such as Japan, Germany, South Korea, and Austria. The boundary between the described systems is very fluid. It should be added that today, in many countries, financial systems combine, to varying degrees, elements of a market-oriented system with elements of a bank-oriented system (Bukowski, 2011, p. 15).

## 2. Measures of capital market development

The development of the financial sector is one of the elements of broad financial development. S.I. Bukowski is of the opinion that "*the development of the financial system in the long term and its impact on economic development can be quantitative and qualitative*" (Bukowski, 2009 b, p. 16).

S.I. Bukowski used in his work to measure the development of the capital market, among others the following indicators: number of listed companies on the stock market, stock market capitalization, ratio of stock market capitalization to GDP, ratio of stock market capitalization to gross capital accumulation (in %), capital raised through stock market issues (% of GDP), capital raised through stock market issues to gross capital accumulation in the economy (in %), capitalization in the stock market for bonds, government debt/GDP (in %), capitalization in the stock market for government bonds to GDP (in %), ratio of capitalization in the stock market for corporate bonds to GDP, ratio of bank deposits to GDP (in %), ratio of bank loans to the private sector to GDP (in %) (Bukowski, 2011, pp. 78-86).

Table 1. shows the most commonly used measures of capital market development according to Ł. Goczek, K. Kurowska, K. Zduniak.

**Table 1. Capital market development measures**

Group of variables	Variable	Description
Capital market development measures	CAP	Market capitalization of listed companies as a percentage of GDP
	TURN	The value of trading on the stock market as a percentage of GDP
	RATIO	Market liquidity index calculated as the ratio of stock market turnover to capitalization
	LISTC	Number of companies listed on the main stock exchange
	INDEXG	Annual growth of the stock market's primary index

Source: Own study based on: Goczek et al., 2014, p. 143

According to Ł. Goczek, K. Kurowska, K. Zduniak, the measures of capital market development presented in Table 1. are among the most widely used in the literature, starting with Levine (Goczek et al., p. 143).

It can be said that depending on the model of the financial system (Anglo-Saxon or Continental) operating in a country, other indicators of the financial and/or capital market development stand out. In the case of the Anglo-Saxon model, these could be, for example, stock market capitalization/GDP, the number of listed companies or the stock market capitalization of companies listed on a given stock exchange. While in the second model, bank deposits/GDP, bank loans to the private sector/GDP or capitalization in the corporate bond market/GDP (Bukowski, 2009 a, pp. 186-187).

### **3. Capital Market in Mainland China**

Of the ten largest stock exchanges in the world, three are located in China. These include the Shanghai, Shenzhen and Hong Kong stock exchanges.

The *Shanghai Stock Exchange* (SSE), was established on November 26, 1990, and began formal operations on December 19, 1990. The exchange operates under the strong leadership of the Communist Party of China (CPC) Central Committee and the State Council, and the direct guidance of the China Securities Regulatory Commission (China Stock Market Handbook Editorial Board, 2008, pp. 17-23).

The Shanghai Stock Exchange has grown rapidly over its three decades of operation. It offers products in the form of stocks, bonds, funds and derivatives. The exchange has world-class trading systems and communication infrastructure that contribute to the efficient and stable operation of the Shanghai securities market. The Shanghai Securities Market has grown rapidly both in term of size, but also in terms of the number of investors. This, in turn, has made the Shanghai Stock Exchange one of the most representative emerging capital markets. Based on statistics from the World Federation of Exchanges (WFE), at the end of November 2022, the Shanghai Stock Exchange ranked 3rd in terms of total market capitalization, 5th in terms of total turnover and 1st in terms of capital raised, becoming one of the world's top exchanges (Shanghai Stock Exchange, 2024).

The *Shenzhen Stock Exchange* (SEZ) was established on December 1, 1990, and is an entity supervised by the China Securities Regulatory Commission. This exchange organizes, supervises the trading of securities, and performs duties that are prescribed by law, regulations and policies. It contributes to supporting the Chinese economy, as well as transforming the country's economic growth model. The SEZ pays special attention to product and technological innovation, through which the capacity of multi-level capital markets is continuously improved. It includes shares of Chinese companies listed on the main market (Shenzhen Stock

Exchange, 2024). As with the Shanghai Stock Exchange, world-class trading systems ranked among the most modern in the world are used here. In addition, on the Shenzhen Stock Exchange, there is also a safety limit to prevent excessive price fluctuations – a maximum increase/decrease of up to 10% per day (Shenzhen Stock Exchange, 2024). The Shenzhen Stock Exchange offers products in the form of stocks, bonds, mutual funds and derivatives (Shenzhen Stock Exchange, 2024).

A number of exchange-managed products have been developed to support the operation of stock exchanges in mainland China and enable their further development. Among the main ones are *Qualified Foreign Institutional Investor* (QFII), as well as *Shanghai-Hong Kong Stock Connect*, *Small and Medium Enterprise Board* (SME Board) and *ChiNext*.

The Chinese authorities, since the period of the establishment of China's stock exchanges, have imposed restrictions to control the supply and demand of shares. On the supply side, the volume of share issue was rigidly regulated. On the demand side, on the other hand, the demand side was influenced by, for example, the categorization of shares, the ban on their acquisition by financial institutions, and later also by all state-owned enterprises (Wong, 2006, pp. 397-398).

Despite the profound economic reforms initiated in the late 1970s to open up the Chinese economy, China's financial system remained under tight state control. Prior to 1978, the People's Bank of China (PBoC) played a key role in this system. The PBoC was tasked with the functions of both a central bank (issuing and regulating the circulation of cash money, managing the state's foreign exchange reserves, setting interest rates) and a commercial bank. As such, the People's Bank of China was also responsible for mobilizing savings from households and businesses, as well as providing credit. The stream of finance went almost exclusively to state-owned enterprises (Bieliński, Gostomski, 2018, p. 180).

For a general breakdown, at present, China's banks can be divided into state-owned and commercial banks. The purpose of the former is to support the country's economic development, whose activities are included in the country's annual budget plan. These include three banks: *Agricultural Development Bank of China*, *China Development Bank* and *Export-Import Bank of China*. Commercial banks, on the other hand, are focus on profit maximization, for which they, among other things: collect deposits, make loans, handle domestic and international settlements, as well as issue bonds or buy/sell government bonds. They make operational decisions on their own, but are also fully responsible for the risk incurred. The activities of China's commercial banks are therefore reduced to fulfilling their core functions, due to the restrictions imposed by the central government. Commercial banks in the People's Republic of China are further divided into: commercialized state-owned banks and private banks.



In the case of the former, these include the so-called "big four": Bank of China, Agricultural Bank of China, China Construction Bank, Industrial and Commercial Bank of China (Heep, 2014, p. 37). These four banks are currently the world's largest in the terms of assets size.

A key moment for the development of China's financial market was China's accession to the *World Trade Organization* (WTO) in 2001. Since that event, the process of liberalizing the banking sector has accelerated significantly. As part of its accession to the WTO, China pledged to open its market to foreign investors (Bieliński, Gostomski, 2016, p. 122).

In addition to reforms in the banking sector, China has also been carrying out capital market reforms. Formally, in its current form, China's capital market has been in place since 1992, but the first bond market mechanisms were already in operation in the 1980s. As in the banking sector, so in the capital market, the watershed moment was China's accession to the WTO. Until then, A shares denominated in Chinese currency (RMB) could only be bought by domestic residents, while B shares denominated in foreign currencies, could only be bought by foreign entities. This division of shares on China's stock exchanges was introduced to control transactions by foreign investors. These entities in order to operate on Chinese stock exchanges had to obtain such a right in advance, under a license (Palonka, 2019, pp. 298-299).

The structure of China's financial system has long been dominated by the banking sector. As such, it seems reasonable to refer to it as a bank-oriented system. However, it should be noted that in recent years there has been an increase in the importance of the capital market in China. Which is confirmed by the significant development of the China's stock exchanges and the high position they occupy internationally, despite their relatively short period of operation in their current form.

#### **4. Data analysis**

This part of the article focuses on the analysis of selected financial indicators of the financial market (including the capital market) in China. In order to examine the importance of China's capital market, indicators extracted from the *Financial Structure Database* (World Bank, Financial Structure Database, 2024) and the *Global Financial Development Database* (World Bank, Global Financial Development Database, 2024) were used: stock market capitalization/GDP (%), stock market turnover value/GDP (%), stock market turnover ratio (%), number of listed companies per 1 million population, private sector bank loans/GDP (%), bank deposits/GDP (%), corporate bond market capitalization/GDP (%), government bond market capitalization/GDP (%). In order to better illustration, the data for the above-mentioned indicators were juxtaposed with data for the market in the United States. This is not a random choice of countries – these are the two economic powers of the world. Both the United States and China are the largest

economies in the world in terms of *real* GDP value (constant prices 2015 = 100) (World Bank, World Development Indicators, 2024). In addition, they are countries that are characterized by a different financial system model.

Our own research used annual data from 1992-2021. The beginning of the adopted research period was dictated by the start of the operation of stock exchanges in China – in its current form, the capital market in China has been formally operating since 1992. The unavailability of statistical data from recent years does not allow for the extension of the research period. However, this does not prevent us from fulfilling the research objective and indicating the long-term trend.

The United States is an example of a country with an Anglo-Saxon model. The main source of financing for long-term investments over the years in the United States has become the securities market (Jaworski, 2010, p. 24). The role of banks is mainly reduced to clearing and payment purposes, or providing short-term loans (Golec, 2016, pp. 19-20). Among the institutions licensed in the United States, most are small and medium-sized banks, which are independent local banks. Licensed banking institutions include commercial banks, savings and loan associations and mutual savings banks (Mika, 2012, pp. 418-420). Societies (building societies and self-help societies) and funds are also an important element in the structure of the financial system (Heffernan, 2007, pp. 270-293).

In this paper, data on the capital market in the United States collectively includes data from two stock exchanges: *the New York Stock Exchange* (NYSE) and *the National Association of Securities Dealers Automated Quotations* (NASDAQ). The NYSE formally began operating in 1817. Today, it is the world's largest stock exchange in terms of stock market capitalization (NYSE, 2024). NASDAQ, on the other hand, has been formally operating since 1971 (NASDAQ, 2024). Both the NYSE and NASDAQ exchanges have their headquarters located in New York. The stock market in the United States is the largest in the world in terms of stock market capitalization. Before attempting to analyze selected financial indicators, it is worth noting that China's capital market (in its current form) is much younger than that of the United States.

The first indicator analyzed is stock market capitalization/GDP (%), and the next is the stock market turnover value/GDP (%). Table 2. presents data on the aforementioned indicators for the studied countries from 1992 to 2021.

**Table 2. Stock market capitalization/GDP (%) and Stock market turnover value/GDP (%) from 1992 to 2021**

Indicators	Stock market capitalization/GDP (%)		Stock market turnover value/GDP (%)	
	China	United States	China	United States
1992	2,40	66,93	2,07	35,88
1993	6,57	71,67	8,41	43,59
1994	8,13	71,53	9,43	48,75
1995	6,28	79,40	10,23	57,95
1996	9,28	95,94	22,21	75,44
1997	16,84	112,51	35,57	94,84
1998	21,38	130,96	31,91	119,18
1999	25,84	144,12	22,62	161,61
2000	38,09	146,66	61,60	237,63
2001	41,64	138,85	45,36	242,08
2002	33,87	115,33	27,13	174,71
2003	30,23	111,19	21,72	145,56
2004	24,69	126,18	23,07	144,94
2005	18,74	128,95	19,96	173,35
2006	28,06	133,78	28,12	206,20
2007	78,45	137,61	103,54	255,07
2008	74,27	109,74	119,99	313,72
2009	52,40	92,76	114,91	284,78
2010	62,42	108,12	132,24	235,06
2011	51,08	107,21	102,63	250,55
2012	42,21	106,75	69,78	228,77
2013	40,43	127,99	67,01	196,77
2014	47,91	145,42	94,59	208,51
2015	64,10	141,88	231,53	221,82
2016	67,60	140,66	249,17	224,06
2017	65,50	153,21	144,69	211,11
2018	45,52	148,27	94,07	160,90
2019	59,63	158,57	127,79	108,51
2020	83,16	194,89	215,02	ND
2021	ND	ND	ND	ND

Source: Own study based on statistical data of the Financial Structure Database and the Global Financial Development Database

The ratio of stock market capitalization/GDP reflects the development of the stock market and the degree of its importance to a country's economy. Based on an analysis of the data in the table above, it can be concluded that the stock market in the United States was more important to the country's economy during the period under review. Importantly, the importance of stock exchanges in China has steadily increased, moreover, they have grown rapidly (from 2.40% of GDP in 1992 to 83.16% of GDP in 2020).

Based on the analysis of the data on the development of the stock market turnover value/GDP ratio (%), it can be noted that higher turnover among the studied economies was recorded in the United States. In addition, China saw a noticeable increase in interest in stock market trading during the period under study. The first and large increase took place in 2007, when the stock market turnover value/GDP ratio increased by 75.42 percentage points compared to the previous year. In contrast, in 2015 it was 231.53% reaching a higher value than in the United States.

Table 3. presents data on the development of the stock market turnover ratio (%) and the number of listed companies/1 million population for the countries studied from 1992 to 2021.

**Table 3. Stock market turnover ratio (%) and No. of listed companies per 1 million population from 1992 to 2021**

Indicators	Stock market turnover ratio (%)		No. of listed companies per 1 million population	
	China	United States	China	United States
1992	164,76	57,99	0,04	25,58
1993	149,99	69,87	0,10	26,59
1994	214,53	70,00	0,17	27,57
1995	108,81	85,38	0,27	28,12
1996	322,12	89,93	0,43	30,03
1997	230,33	96,01	0,65	28,99
1998	130,66	103,68	0,73	27,18
1999	134,74	135,56	0,76	25,91
2000	158,06	198,08	0,86	24,51
2001	81,38	142,13	0,91	21,68
2002	67,69	135,20	0,96	19,77
2003	77,30	125,94	1,00	18,25
2004	105,93	123,95	1,06	17,85
2005	91,59	153,42	1,06	17,41
2006	150,10	165,47	1,08	17,20
2007	226,39	215,48	1,16	16,96
2008	114,44	292,62	1,21	15,34
2009	292,91	255,96	1,28	14,35
2010	217,32	222,25	1,54	13,83
2011	173,01	246,32	1,74	13,39
2012	139,58	187,10	1,85	13,07
2013	198,90	154,76	1,83	13,23
2014	239,15	152,97	1,92	13,72
2015	556,91	160,16	2,06	13,66
2016	242,27	159,88	2,21	13,41
2017	215,90	133,27	2,51	13,34
2018	206,65	108,51	2,55	13,45
2019	214,29	68,43	2,68	12,99
2020	258,55	ND	2,94	ND
2021	ND	ND	ND	ND

Source: Own study based on statistical data of the Financial Structure Database and the Global Financial Development Database

Based on the analysis of the data in the table above, it can be concluded that the stock market in China has achieved higher turnover values among the countries studied. During the period under study, the value of average annual turnover was at the level of 189.11% in China, while 146.80% in the United States. In the extreme years of the period studied, China recorded a higher rate of stock market turnover ratio. The stock market in China enjoyed a clear interest from investors. In the case of the United States, no such dynamic changes were recorded for the indicator in question.

The ratio of the number of listed companies/1 million population allows us to assess the breadth of the market, which is related to its supply attractiveness. Based on the analysis of the data in the table above, it can be seen that this ratio has been gradually increasing in China. Despite its steady growth, it reached significantly lower values compared to the second country studied. It is also worth noting that in the United States there was a downward trend in the value of the indicator number of listed companies/1 million population.

Table 4. presents data showing the development of the ratio of the private sector bank loans/GDP (%) and bank deposits/GDP (%) for the surveyed countries in the years 1992-2021.

**Table 4. Private sector bank loans/GDP (%) and Bank deposits/GDP (%) from 1992 to 2021**

Indicators	Private sector bank loans/GDP (%)		Bank deposits/GDP (%)	
	China	United States	China	United States
1992	75,79	46,02	21,18	61,95
1993	78,34	43,94	22,60	58,75
1994	78,21	43,12	22,98	55,12
1995	75,74	44,34	22,72	54,55
1996	80,38	45,04	23,84	55,46
1997	88,36	45,21	26,77	56,29
1998	97,58	45,77	29,48	57,95
1999	104,06	46,01	32,34	59,53
2000	104,83	46,97	35,15	60,97
2001	104,79	49,28	37,14	64,07
2002	107,82	49,72	39,81	65,36
2003	113,14	50,11	42,30	65,15
2004	112,37	51,25	42,78	64,21
2005	106,31	53,14	41,74	64,45
2006	101,11	55,32	40,97	66,60
2007	96,29	57,54	40,47	70,62
2008	97,24	60,77	40,42	77,90
2009	107,94	58,00	44,81	83,04
2010	115,67	52,38	49,07	80,44
2011	116,30	51,29	47,81	79,26
2012	119,84	49,86	45,66	80,01
2013	125,16	49,27	44,74	80,59
2014	131,57	49,20	43,89	81,08
2015	139,92	49,78	44,80	80,61
2016	149,20	51,27	50,85	80,97
2017	150,60	51,64	54,68	80,83
2018	157,81	52,22	52,05	81,00
2019	165,39	52,18	50,56	84,53
2020	182,87	54,57	53,40	101,22
2021	178,13	ND	48,67	ND

Source: Own study based on statistical data of the Financial Structure Database and the Global Financial Development Database

Based on the analysis of the data in the table above, it appears that the market for bank loans to the private sector was more significant in China. At the beginning of the period under review, this ratio was almost double that of the United States, but in 2020 it reached a value more than three times higher. In the case of the United States, one can see clearly lower values throughout the period under study, while in the Chinese economy there was a clear increase in the importance of the indicator in question.

Based on the analysis of the data in the table above, it is clear that there was an upward trend in bank deposits/GDP for the countries analyzed. At the beginning of the period under study, the analyzed ratio in China was less than three times lower than in the United States, but in 2020 it was already almost twice as low (53.40%).

Table 5. shows data on the development of the corporate bond market capitalization/GDP ratio (%) and government bond market capitalization/GDP ratio (%) for the countries studied from 1992 to 2021.



**Table 5. Corporate bond market capitalization/GDP (%) and Government bond market capitalization/GDP (%) from 1992 to 2021**

Indicators	Corporate bond market capitalization/GDP (%)		Government bond market capitalization/GDP (%)	
	China	United States	China	United States
1992	2,80	70,89	2,37	58,30
1993	2,82	72,03	2,67	60,04
1994	2,58	73,49	2,76	59,24
1995	2,51	77,15	2,98	57,99
1996	2,89	80,48	3,55	56,54
1997	3,51	82,91	4,22	53,95
1998	5,01	87,32	5,39	51,00
1999	6,44	92,00	6,80	47,66
2000	7,51	94,61	9,05	43,28
2001	7,91	98,83	9,91	41,06
2002	9,85	101,22	13,39	41,45
2003	11,45	102,96	14,98	43,45
2004	16,84	103,75	14,83	48,71
2005	24,53	105,72	14,60	52,67
2006	29,02	109,90	13,30	52,38
2007	28,64	113,73	17,34	51,65
2008	33,00	119,95	15,72	57,57
2009	33,37	116,52	16,25	68,06
2010	32,68	102,37	16,12	76,56
2011	30,25	91,86	15,70	82,57
2012	34,23	ND	15,31	ND
2013	34,82	ND	16,26	ND
2014	37,64	ND	16,42	ND
2015	46,15	ND	21,40	ND
2016	52,66	ND	28,88	ND
2017	57,47	ND	35,06	ND
2018	55,27	ND	55,27	ND
2019	61,46	ND	61,46	ND
2020	73,21	ND	73,21	ND
2021	ND	ND	ND	ND

Source: Own study based on statistical data of the Financial Structure Database and the Global Financial Development Database

Based on the analysis of the data in the table above, it can be seen that the indicators in question reached low values in China at the beginning of the period under study. However, over the period under study, and in relation to the United States, they developed more dynamically. This was significantly influenced by the policies pursued in the country and the economic reforms carried out in China. The incompleteness of the available statistical data does not allow for a comprehensive analysis.

### **Conclusion**

Depending on the model of the financial system (Anglo-Saxon or Continental) operating in a country, other indicators of financial and/or capital market development stand out. In the case of the Anglo-Saxon model, these may include, for example, stock market capitalization/GDP, the number of listed companies or the stock market capitalization of companies listed on a given stock exchange. Whereas in the Continental model: bank deposits/GDP, bank loans to the private sector/GDP or capitalization in the corporate bond market/GDP.

In countries with the Anglo-Saxon model, the ratio of stock market capitalization to GDP is higher than the ratio of bank credit to GDP. A good example of a country with this type of model is the United States. In the case of China, the stock market capitalization/GDP ratio did not reach higher values than the bank loans/GDP ratio.

The structure of China's financial system has long been dominated by the banking sector. Such as, it seems reasonable to refer to it as a banking-oriented system. However, it should be noted that in recent years there has been an increase in the importance of the capital market in China. This is evidenced by the significant development of China's stock exchanges and the high position they occupy in the internationally, despite their relatively short period of operation in their current form (since 1992). Of the ten largest stock exchanges in the world, three are located in China. These include the Shanghai, Shenzhen and Hong Kong stock exchange. The gradual opening of the country's economy to the world, as well as China's accession to the World Trade Organization in 2001, played a huge role here.

Analysis of the data of selected financial indicators from 1992 to 2021 allows us to conclude that there has been an increase in the importance of the capital market in China – the ratio of stock market capitalization/GDP over studied period has gradually increased. The analysis of the statistical data in this article shows that all the studied financial indicators for China show an upward trend in the long term. Which, in turn, allows us to formulate the conclusion that the importance of China's capital market in the international arena, as well as against the background of world economic powers, including the United States, is increasing.

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## ARTICLES

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### DESIGN THINKING AS A CONCEPT FOR INSPIRING INNOVATION

#### Abstract

The article presents information on the method of creating and implementing innovative solutions in the form of new products, innovative technologies, services, strategies, processes, educational programs and even business models, among others. The method of Design Thinking was characterized as a method of design thinking that supports the development of innovations and providing a guarantee of out-of-the-box solutions, juxtaposed with examples of how to use the knowledge gained in professional practice. Modern companies are increasingly competing with each other in the battle for the customer, using various techniques to do so. One such technique is the concept of design thinking (Design Thinking). The article introduces the essence of Design Thinking and describes the activities of the various stages with an indication of selected tools.

**Keywords:** design thinking, innovation, creative design, business models.

**JEL Classification:** O31, O32.

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## Introduction

It is increasingly common to read in the business press about Design Thinking as a new method for solving the problems that business organizations face in supporting innovation and growth in the last few years. However, the specific mechanisms through which companies can improve their innovation performance have so far received little attention from scholars, and little attention has been paid to the Design Thinking method in the Polish scientific literature.

Modern companies are using modern techniques to conduct their activities thereby competing for customer consideration. One of the techniques is the Design Thinking method, a creative problem-solving method. Design Thinking, as one of the most effective methods of innovation, has many definitions, but according to Tim Brown, one of the authorities on modern design, Design Thinking is "a discipline that uses the designer's sensibility and methods to match people's needs with what is technologically feasible and what a viable business strategy can convert into customer value and market opportunity" (Brown, 2015, s. 15).

Design Thinking is a new method of problem-solving in business organizations in support of innovation and development, and is used to stimulate creativity and innovation in the creation of new products and services and the development and improvement of existing ones. By experimenting and building prototypes – focusing on the needs of the user – so-called "tailor-made", it is possible to transform good ideas into an innovative product or service much faster than by traditional means. Design Thinking is not only methods and tools, but first of all a specific way of acting and perceiving reality.

In the Polish literature, Design Thinking is also referred to as design thinking, defined as "A concept that uses the designer's sensibility and working methods, combines people's needs and desires with that which is technologically feasible, creating a strategy that realizes customer-relevant values and creates new market opportunities" (Gawronski, 2012, p. 15).

Thomas Lockwood points out that Design Thinking is a process centered around people and their needs. Design Thinking can be used to create new products, services, but also to solve business problems and challenges" (Lockwood, 2009).

Another definition states that it is "a discipline that uses common sense and designer methods to meet people's needs with that which is technologically possible and which a sound business strategy can turn into customer value and market opportunity" (Brown, 2008, p. 86).

Nowadays, the direction of development of modern enterprises, taking into account such elements as product, service, communication, information and environment, includes strategies based on design and innovation. This approach is not limited to visual aspects only, but integrates many

disciplines such as technology, ergonomics, technology, economics, marketing, psychology, sociology, management to create innovative value from the viewpoint of the recipient.

Design Thinking is characterized by working in multidisciplinary teams, and consequently, thanks to this diversity, it is possible to stimulate creativity (Starostka, 2015, p. 1071). A design team for problem solving and new product development should include people from production, research and development, marketing, sales, as well as designers. Because their competencies are diverse, they have a chance to develop out-of-the-box solutions (Bruce, Bessant, 2002, p. 49).

Design thinking is an intuitive working method that produces innovations in multidisciplinary teams by combining elements of engineering, business, design and social science. It helps produce an innovative product or service, improve customer service processes or develop new ways to communicate with consumers. The method is defined in many ways. It can be used to produce an innovative product or service, improve a customer service process or develop new ways of communicating with consumers.

The method originated from design studies, which, among other things, created the prototype of the computer mouse, came up with revolutionary solutions used in Apple products, or, for example, toothbrushes for young children equipped with a comfortable, thicker handle.

### **1. Stages of design thinking**

In view of the flexibility that design thinking introduces, it is impossible to clearly define a framework for action based on this concept. Instead, it is possible to distinguish action stages on the basis of which the progress of the work is monitored. In practice, there are various design stages and their nomenclature, which are reduced to an analogous path of activities.

The stages of the design thinking process allow exploring many possible ways to solve the problem. They assume the ability to look at a challenge from many different perspectives without favouring any of them, while allowing inspiration from a wide variety of often non-obvious areas and thus enabling a specific solution to be found using available resources. The process of Design Thinking is shown in Table1.

**Table 1. Design Thinking as a process**

Specification	Characteristics
Duration of the process	Time is the most precious resource, the course of which we have no control over
Participants in the process	User/client Design team Designer Sponsor
Purpose of the process	Determination of what will be a measurable outcome of the process defined in concrete and understandable terms
Project team and its size	People associated with the organization, i.e., employees, consultants, partners, who know the organization, its strengths and weaknesses, the challenges it faces, its internal structure and its customs
Personality tests	Personality types - personality traits of people involved in the work of the project team
Space	Working conditions in which the project team works – comfortable working conditions support creativity
Formulas and work rules	Materials used Time discipline
Stimulators	Methods of activating the attention of participants

Source: Own compilation based on: [desingthinking.co.uk](http://desingthinking.co.uk) [access: 20.02.2023]

The Design Thinking process should begin by analysing and understanding the audience's problems through conversation and observing their behaviour. Based on the analysis of the audience's opinions and behaviour, the right direction can be defined as to the search for a solution to a problem. The search for effective, innovative, novel solutions as well as the invention, creation and creation of big ideas to meet the needs that were previously identified constitute stage three of the process. Stage four is prototyping, where preliminary versions of solutions are selected and created from among all the ideas. The final step is testing, which is presenting the solution to the user and seeing how it works in practice. Depending on the situation, there is a backtracking to an earlier stage or the launch of the final product.

The most common breakdown of the Design Thinking process is as follows:

1. Discovery – empathy – who are we designing for?
2. Defining the problem – defining the challenge (identifying needs) – why are we doing this?
3. Creating a solution – generating ideas – what are we proposing as a result?
4. Prototyping – how does it work?
5. Testing – does it work?
6. Implementation planning – is it implementable?



The Design Thinking process, divided into 5 stages, according to which one should go through the creative design flow (Table 2).

**Table 2. Stages of the Desing Thinking process**

Specification	Characteristics
Discovering	Exploration of information about the user through direct interaction - conducted during this stage of the research – interviews, observations help to "step into the shoes of the customer" and learn about their situations, including their needs and expectations.
Defining the challenge	All the information gained, about who our user is – what are his/her needs and expectations, what are his/her biggest life challenges and daily problems, what he/she needs in the context of the designed solution must be analysed and narrowed down to one sentence, representing a design challenge.
Creating a solution	During this stage, which results in the selection of several ideas for prototyping, a wide variety of tools are used, including brainstorming and creative techniques to generate ideas that respond to predefined design challenges.
Prototyping and testing	At this stage, the selected ideas are turned into prototypes, i.e. objects in the form of mock-ups, diagrams, which show their most important functionalities and how they could be used by users; then the prototypes are subjected to testing, which is aimed at selecting from the resulting prototypes those features and functionalities of the solutions that will be further developed, and eliminating those that did not receive customer approval.
Implementation planning	As the final stage of the process, it aims to prepare as concrete a plan as possible to implement the tested solutions, and then to implement the solution as soon as possible and release it to the market with minimal risk of failure.

Source: Own compilation based on: [desingthinking.co.uk](http://desingthinking.co.uk) [access: 20.02.2023]

Empathization aims to delve into a problem, from the perspective of the people who feel it. According to the method's creators, innovation begins with empathy, which allows for a deep understanding of users' needs. The most important thing is to diagnose and identify the "hidden motivations" that influence people's behaviour, as well as to understand the market or technological conditions of the project. At the empathy stage, tools and methods such as empathy maps, interviews and exploratory surveys, user observations are used, and an analysis of the environment in which the problem or need for a new product is occurring is conducted. It is also worthwhile to conduct observations of user behaviour, as users may use their own amateur improvements that can contribute to the design of new products (Helman, Rosienkiewicz, 2016, p. 63).

Defining the problem as the second stage of the process focuses on summarizing the messages obtained during empathization and clarifying what specific problem and goals will be pursued. Techniques such

as re-framing, 5 Why, mapping the problem on the how-to-why axis can be used to define the problem.

Idea generation is the stage in which the team first works conceptually on the most diverse solutions that could work, and then decides which solution idea is best. The basic tool used at this stage is the popular brainstorming – brainstorming, as well as the 6 hats method. It is important to remember that these methods are not an end in themselves, but only a starting point for determining the next courses of action.

Building prototypes – at this stage a physical prototype is created. Its purpose is not to create complex models with features similar to the final product, since the most important thing is to be able to visually present the idea to users and quickly gather feedback on the solution. At this stage, visualizing prototypes are created to refine the solution. All sorts of materials can be used to build prototypes – paper, cardboard, foam, plastic, they can also be cut out of Styrofoam or wood or use existing products. Prototyping using 3D printing is becoming increasingly popular. The prototype doesn't always have to be an object – in the case of services, a comic strip, storyboard or user path drawing can be used.

Testing – at this stage the designed solution is tested in a real environment where the product will be used. The resulting prototypes are subjected to evaluation by other groups or individuals associated with the problem.

This process approach reduces the risk of potential failure of the implementation of a product or service that is not adapted to the needs of end users. It also allows for the introduction of modifications and upgrades even at the initial stage of development, which in turn not only influences broad consumer satisfaction, but also translates directly into the quality of goods offered. The effect of this approach is undoubtedly the reduction of costs associated with minimizing the risk of producing a solution that does not meet the original requirements of customers, as well as the ability to take into account the necessary corrective actions to achieve the planned results and continuous improvement. The process approach, using Design Thinking, makes it possible to identify the interdependence of the processes analysed in the company, establish criteria for their verification, evaluation and regular monitoring (Wawak, 2016).

The results of the Design Thinking process are creative, comprehensive, innovative solutions of the problems. Such solutions can be:

- new products and services,
- processes and their optimizations,
- strategies,
- business models,
- scientific and technological innovations.

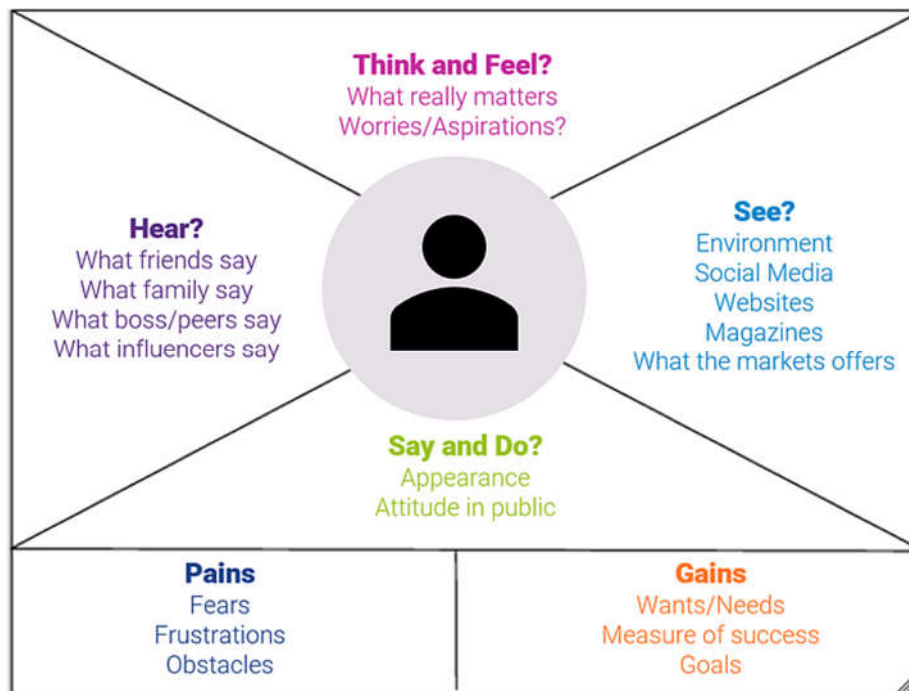
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Solutions created through the visual thinking process bring improvements to almost every industry. They are responsible for the success or failure of advertising campaigns, the creation of certain corporate images, or the development of start-ups.

## **2. Design Thinking Techniques**

There are many research tools and techniques possible with the Design Thinking method. Some of them do not require expert knowledge and specialized competence and can be successfully applied independently. This is because the reliability and relevance of the data obtained in the course of research determines their functionality and usefulness in the process of design work. Design Thinking uses a number of techniques, such as realtimeboard, empathy map, context map, Ishikawa Chart, 5 Why method, brainstorming or 6 hats method.

Not all the tools used by designers to improve problem-solving and communication with a business partner come from the fields of engineering and design. Design Thinking, as a multidisciplinary approach, has adapted methods and tools from different fields of knowledge, such as art, engineering, anthropology, psychology, etc. At the empathy stage, tools and methods such as empathy maps (Figure 1), exploratory interviews and surveys, user observations, and an analysis of the environment in which the problem or need for a new product is occurring are used.



**Figure 1. Empathy map**

Source: M. Li, Empathy Mapping: An essential for UX design:  
<https://bootcamp.uxdesign.cc/empathy-mapping-an-essential-for-ux-design-12e8177dc15e> [access: 20.02.2023]

In the advanced Design Thinking process, there are various methods and workshops to support the thinking and creating stages. The basic tool used at this stage is the popular brainstorming, as well as the 6 hat method.

The brainstorming method, classified as a group of heuristic methods and techniques for generating ideas and analysing them on the basis of creative thinking and logical combinations, was developed by Alex Faickney Osborne and first applied in 1938. This tool, which has the advantage of building a creative environment, thus influencing the stimulation of creativity of session participants, is usually applied in the form of joint work of a team of two to a dozen people. An important feature of this method is the exclusion of elements of ruthless criticism, which blocks minds from thinking creatively outside the box. Although brainstorming is a heuristic method, it is applied in a certain sequence of events, which are moderated by the person leading the sessions. Brainstorming is an excellent tool for generating ideas because its overarching premise is to use collective thinking, engaging a multidisciplinary group to listen and derive ideas based on others' solutions. Typically, brainstorming uses "post-it" which are coloured pieces of paper

taped on the wall used to map the thought process, which are temporary, can be freely reposted, arranged in different configurations by reminding people that the process requires a lot of flexibility and distance from one's own ideas.

The Six Thinking Hats method was created by Edward de Bono, the founder of the concept of lateral thinking. At the basis of this method is the assumption that the obstacle to achieving unconventional solutions in group work is presenting one's own position and trying to defend it, while – not always justified – criticizing the ideas of others. In individual work, on the other hand, the barrier is the "chasing of thoughts" involving simultaneous focus on multiple aspects of the issue under consideration and emotions. The method of six hats is based on the model of parallel thinking, which is aimed at obtaining, as many different opinions on the topic under study as possible. By using this method, it is also possible to evaluate the developed solutions in a structured and organized manner, as it involves analysing the problem from different perspectives and role-playing symbolically designated by hats in six colours. The hat signifies a way of thinking and obliges the holder to adopt one of the points of view. By having all participants focus on a particular approach (hat colour) at one time, the group works together better than if one person evaluates ideas emotionally (red hat), while another person tries to be objective (white hat), and yet another person is critical of all the ideas that emerge from the discussion (black hat).

Design Thinking tools have their applications in many areas of business (Meinel, Leifer, 2022). The choice of particular tools or design strategies depends mainly on the purpose they are intended to serve. However, the most important thing in this method of work is, on the one hand, to take into account the complex context of a given area or business challenge at each stage of the project, and on the other hand, to realize that design is an open and continuous process, and its development potential lies in the never-ending search for new perspectives and opportunities.

### **3. Design Thinking in practice – examples of application in companies**

The concept is applicable not only in the product sphere, but also in service or process offerings. It is primarily a structured way of searching for solutions, starting from the definition of the problem, through implementation, up to the evaluation of the resulting prototypes and a thorough assessment of the results obtained. It is the Design Thinking method that is behind the successes of the world's most recognizable brands and their iconic products. Thanks to the Design Thinking method and putting people and their needs at the centre of the project, products desired by customers around the world have been created. Design Thinking in business can be used at different stages of its development. From testing

a business idea and business model, to implementing process optimization in a company, creating new products, to creating a marketing strategy for a brand and building its image. Design thinking is the method by which young companies and start-ups implement innovative ideas and improvements. It is the focus on the needs of the potential customer, not the needs of the company, that allows designed products and services to succeed. Design Thinking is the answer to many of the questions being asked – and most importantly, it is the answer to the question of how to comprehensively approach a given type of problem – so it is a broader context for action (Lewrick, 2018).

The background for the development of Design Thinking is Stanford University in California, where projects in line with the concept of design thinking began. At the time, the method was seen as a transfer of creative ideas, visions from the world of science to business, being an innovative approach to the growing demand of Silicon Valley entrepreneurs. One of the main pioneers of Design Thinking is Professor David M. Kelly of Stanford University, later co-founder of the IDEO design office. IDEO's services are used by many world-renowned companies, and major clients include Apple, GE, and Shimano. The creation of the design bureau was in part a response to market demand, related to the need to modify the then prevailing client-designer model. Many times, technology companies expected only a case, a "package" for their product, while having a fully functional device already ready. Despite diagnosing elements in the manufactured goods that should be improved even before the product was launched on the market, it was too late to implement improvements. The financial outlay to modify the products was enormous, which would undoubtedly have weighed on the profitability of their sales. IDEO has many design offices around the world, including in New York, Chicago, San Francisco, Boston, London, Shanghai, Singapore, Tokyo, Seoul and Munich. It currently employs more than 550 designers from various area disciplines who are specialists in their field, and the company is managed by Tim Brown.

The IDEO concept came about as a result of the need to change the approach to creating high-value solutions for customers, in which an important premise of the project – the need to involve product and service designers at the very beginning of the design process. The result of this work came from a true understanding of customer needs and expectations during the testing stage, where the change in approach began to yield very good results, as the entire process began with the understanding stage and ended with testing. IDEO, which uses design thinking in the areas of strategic consulting, innovation, transformation, organizational culture building, marketing and many other areas thanks to the involvement of its employees in product development starting from the concept phase, is able to develop much more innovative solutions. The unique value that IDEO offers its clients

is a new model of cooperation the ability to develop an innovative product from the initial phase of the product life cycle. In the past, companies would come in with a finished product and expect to upgrade it, but it was often too late.

Design Thinking is one of the most leading methods used by well-known and well-liked brands in the community such as Apple, Coca-Cola, Ikea, Nike, Starbucks, SAP, Walt Disney, among others.

Only some examples of well-known brands have been mentioned. We can imagine that without Design Thinking, there would not be most of the above products. Following the stages in the case of the Apple brand, one can see a combination of product innovation and fashionable design. The company has also focused on creating 3 specific models released at one time, thus dropping a new product line. The brand also prides itself on its customer service, the level of which ensures that all their customers are satisfied with the product and have a memorable experience. By developing a reputation as an expensive but also unique brand, Apple creates its products so that they are well configured with new models, so the iPhone combines with the iPad and MacBook, and the air pods fit each individually.

For IKEA, the world's largest furniture retailer, the time has already begun to consider what the kitchen of the future will look like and, more importantly, how people will feel cooking in it, eating in it and spending time socializing in it. To make these concepts a reality, IKEA commissioned IDEO to design and build a full-scale kitchen concept for 250,000 visitors to test the developed solutions at the EXPO in Milan.

Another of the companies using design thinking in its operations is SAP AG (Systems Applications and Products in Data Processing), a multinational IT company that was founded in 1972 and headquartered in Walldorf, Germany, one of whose flagship products is ERP-class business software, dedicated to companies in almost all industries and sectors of the economy. In the past, SAP customers had to wait months or even years before they could use the purchased software in their company. This state of affairs has been changed by a design thinking approach, which significantly accelerated the development of technology solutions and translated into consumer satisfaction. Developers, working at SAP, want to acquire as much information as possible about the end user, his needs and expectations from the solution being produced. Often, just a few hours of interaction with the customer make it possible to customize the software and give it the desired direction for further development (Galer, 2013).

The practical use of design thinking concepts is invaluable, the only thing that limits them is human imagination. After all, one cannot think schematically, one should even break all stereotypes and go beyond the usual framework. Many of today's everyday solutions have been

developed precisely on the basis of Design Thinking, from furniture to electronics.

The practical use of the concept of design thinking is invaluable, the only thing that limits it is the human imagination. It is even necessary to break all stereotypes and go beyond the usual framework, we cannot think schematically. Many modern solutions used every day have been developed precisely on the basis of Design Thinking, from furniture to electronics.

### **Conclusion**

One of the main benefits of using the Design Thinking methodology is to build market advantage for the organization by continuously strengthening the involvement of employees in creating solutions at different levels and in different areas, combined with attention to the target user. This applies to both internal and external business processes.

1. Design Thinking is a method that is gaining popularity. It involves the creation of highly innovative products and services that are based on a deep understanding of the problems that arise throughout the process.
2. The latest research on business innovation both in Poland and around the world shows that the existing model of development management needs to change and take into account new dimensions of creativity, innovation and value creation.
3. New conditions for strengthening innovation, and thus building competitive advantage, at the same time concern not only the institutional and organizational environment of enterprises, but also the socio-cultural contexts and attitudes of entrepreneurs themselves.
4. Design Thinking is a way to develop innovation in small steps. Thanks to this method, new products, packaging, services, public space designs, marketing concepts, breakthrough technologies have been created.
5. Every B2B company selling technology faces the same challenge – how to convince the customer of their product or technology. Proof of concept is a good practice - it is common for an enterprise customer to conduct several PoCs in parallel, with different suppliers, to verify them and select the best supplier.

Design Thinking is a general-purpose method that can be used not only for the design of new products, but also, for example, to find innovative solutions for a given situation. With the Design Thinking method, it is possible to solve complex problems, even commercial ones, because it provides a fresh perspective on a given situation, you can rediscover the problem and get closer to finding an optimal solution.



Design Thinking is a method of practical, creative problem solving. It's a form of solution-focused thinking with the intention of producing a constructive outcome for the future based on design thinking to provide creative solutions. It is such a versatile method that it can be applied from a start-up to a large corporation. The motto of design thinking is "doing, not talking," so writing down every detail of a project is turned into a several-step breakdown of tasks expanding and clarifying further threads. Design Thinking is a method of design work that uses a diverse set of knowledge, competencies and tools, and thus is applicable to different areas of life.

The essence of the Design Thinking method is a focus on continuous experimentation and the search for innovative solutions with particular attention to the social, cultural and economic context. Innovation in this view requires both the use of a variety of tools to stimulate creativity and mobilize internal resources of the company, but above all, as a social process, it entails the need to undertake multidimensional cooperation with the external environment and skilful management of new design spaces. The process of seeking and exploiting new sources of innovation through effective interaction with various partners, and thus sustaining the competitiveness of the enterprise, poses new kinds of challenges to the entrepreneur as much at the level of his personal and professional development as at the level of building and continuously developing the subjectivity of the entire enterprise.

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## ARTICLES

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### **ENHANCING OF THE PARTNERSHIP CAPACITY OF LOCAL COMMUNITIES: SCIENTIFIC AND PRACTICAL APPROACHES**

#### **Abstract**

The aim of the article is to analyse and assess the main scientific and practical approaches regarding the increase of partnership capacity of local communities.

In particular, an assessment of the level of partnership capacity of the Transcarpathian region communities was carried out on the basis of semistructural interviews with the heads of local communities of the region. The main stimulating and destructive factors preventing the partnership relations development in communities with other subjects, in particular representatives of business and the public sector, have been identified.

It was determined that when justifying strategic directions of partnership activation in local communities, the key element would be the deepening of synergy between all participants of partnership relations. The main directions of partnership activation in communities with a high, medium and low level of partnership capacity are suggested. On the basis of the analyzed experience of the activity of public organizations and the implementation of grant projects, tools are proposed for establishing

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effective partnership cooperation between communities and businesses and creating better conditions for conducting entrepreneurial activities in communities.

**Keywords:** partnership capacity, local communities, semistructural interview, business, local government, public sector.

**JEL Classification:** H790, R190, R580.

### **Introduction**

Partnership capacity is one of the most important forms and manifestations of integration in the system of local government, which ensures the joint implementation of the interests and needs of government, business and the public. The given integration form contributes to a significant improvement in the quality of services provided to the population by authorities and a significant improvement in mutual understanding between the authorities and the community, between all subjects of territorial development (Olenkovska, 2013). Establishing partnership relations becomes one of the most important approaches in the activities of institutions on the way to achieving common goals, it is a key element to important changes in communities and society. Along with this, there are a number of problems and negative factors preventing the partnership relations development at the community level.

Within the framework of this study, the goal is to carry out an analysis and evaluation of the main scientific and practical approaches to increase the partnership capacity of local communities (on the example of the Transcarpathian region). The analysis is based on empirical methods of systemic, comparative and factor analysis, considering the development of basic scientific approaches to the activation of partnership in communities. Also when determining the main factors influencing the partnership capacity of territorial communities at the regional and local levels the method of semistructural interviews has been used. The outcome of the study is the developed proposals for activating the level of partnership capacity of communities, depending on the existing level of their partnership interaction with various groups of subjects, in particular, government, business and the public sector.

### **1. Assessment of partnership capacity potential of local communities is based on the results of semistructural interviews**

When justifying the main approaches for the partnership capacity activation of local communities, the results of semistructural interviews with the heads of the regional communities of Transcarpathian region have been analyzed. Due to this it was possible to obtain information that directly characterizes the attitude of community leaders to partnership and to some extent may

reflect the potential of the local community to establish partnership ties and interaction with other business entities. Thus, during an interview, the goal was to determine the level of cooperation between local community and the heads. Therefore, the heads of the local communities were asked the following question "Is cooperation with the heads established in the community?", to which the majority of respondents gave a similar answer, "These are workflows. The heads may change. Working moments. Work in the "subordinate-employer" format". "There is no problem, everyone must provide what is required". The answer of another chairman to this question leads to the conclusion that cooperation with the heads is the result of the current work of communities and the need for them depends on the current situation in the community: "We don't have the heads. The public will decide whether they are needed or no".

Studying the opinion of the leaders of local communities regarding the level of participation in various types of projects and grants makes it possible to conclude that this area of community activity is insufficiently developed and is at the initial stage of formation. Thus, to the question "Do you elaborate local community development programs and take part in the implementation of the projects?" Do you apply for participation in grant programs?" most of the community heads answered as follows: "We work on it, but so far without results. We are not able allocate 30% for co-financing... And you still need to win a grant. If we allocate 10%, and someone – 30%, then they win..."

During the research and sociological interviews with the heads of the local communities, it was important to investigate the level of cooperation and partnership relations with the business sector which plays a significant role in the socio-economic development of communities and is the basis for the activation of entrepreneurship in the territory of the region as a whole. Thus, to the question "In which way your community interacts with the business sector? Was there cooperation with business representatives in the community?" the majority of the community leaders replied negatively: "There is practically no cooperation, because business assistance is so meager that it is irrelevant, ... and then you become dependent. I don't want that. I'm not trying to establish it".

Community representatives often noted that cooperation with business has been established, but is not effective enough. "There is an exchange of information if sponsorship is involved (City Day events, other events), then the business makes charitable contributions. If we are talking about landscaping, then only the private own territory is considered...". At the same time, there are leaders of the local communities with positive attitude who support relations with the business sector and encourage joint cooperation, in particular: "The community authorities are studying the issue of possible cooperation with local business, involving all available opportunities

to ensure partnership relations. The goal of cooperation with business is to promote the creation of work places, and as a result there will be the growth of tax revenues, which is the main source of community development”.

To the question “Is there a problem that can be suggested to the business to be solved by attracting funding from the community?” the community leaders replied ambiguously: “There was cooperation at the beginning of the previous term, but certain powerful businessmen, taking into account the difficult economic situation, refuse such cooperation”. To the question “Does the community create preferential conditions for business for the social partnership development?” the majority of local community leaders gave negative replies: “These were grant projects implemented jointly with the authorities. The specificity of our business is such that it does not involve joint social projects. At the beginning of the pandemic, there was a charity project, and the businesses provided support to people – they brought food and delivered it to residents. This was the only project implemented on the territory of the community”. Among the main obstacles to the development of social partnership, the local community heads indicated low activity, passivity, unconscious public position of representatives of various spheres, reluctance to participate in joint measures of social and economic development of the community. At the same time, the analysis of the opinion of the community heads regarding internal incentives for partnership development showed that a large part of the heads are ready to develop partnership cooperation in their community. In particular, when they were asked “What are you willing to invest/are investing in the development of partnership relations in your community?”, the community heads marked such points as financial and informational support, participation in project development, exchange of knowledge.

Based on the results of semistructural interviews with the local community heads, it was determined that when justifying approaches and interventions for the activation of partnerships in local communities, the key element will be the deepening of synergy between all participants of partnership relations.

In particular, as it was noted (Lasker, Weiss & Miller, 2001, p. 184), “the synergy that all partnership participants seek to achieve through collaboration appears to be a much broader concept than a simple exchange of resources. By combining future plans, individual resources, knowledge and skills of all partners, the group creates something new and valuable all together – an overall result that is much greater than just the sum of the individual elements of the partnership”. According to the statement of the author cited above, the degree of involvement and personal contribution of each partner to effective partnership cooperation characterizes their ability to (Lasker, Weiss & Miller, 2001, p. 188):

- work with a creative, holistic and practical approach;

- implementation of realistic goals that are understandable to a wide range of individuals and have support;
- planning and comprehensive intervention that integrates different programs, services and sectors;
- understanding and documenting the impact of each of the partner's actions;
- inclusion of perspectives and priorities of community stakeholders, including targeted population groups;
- communication as to how actions of partners would influence the solution of community problems
- community development support.

Along with this, Lasker considers the following points to be the main determinants of partnership synergy: resources (money, premises, equipment, relationships between people, organizations and groups), main characteristics of partners (diversity, level of involvement), relations between partners (trust, respect, conflict, differentiation of power distribution), characteristics of partnership interaction (leadership, management, administration, efficiency), environment (public and organizational policy) (Lasker, Weiss&Miller, 2001, p. 189).

## **2. Strategic directions and tools for activating the partnership capacity of local communities**

Intersectoral partnership at the municipal level as a manifestation of social capital includes three main components. The first one is the reliability of the social environment, which implies the confidence of partners and the local community as a whole, that obligations will be fulfilled, and constructive proposals will be considered and accepted for implementation. The second significant component is the possibility of obtaining complete and reliable information about partners, as well as their openness to the local community. The third aspect would be norms that encourage partners not to seek benefit only for themselves, but to strive for the achievement of a common goal: improving the quality of life of the local population and local communities, ensuring sustainable territorial development (Olenkovska, 2013).

Based on the above mentioned statements, the main directions of strengthening partnership capacity for different types of communities can be identified as follows:

- for communities with a high level of partnership capacity, it is suggested to apply measures that would support their development at the achieved level, as well as contribute to the further activation of their partnership cooperation, taking into account various exogenous and endogenous development factors, including force majeure

situations. The given type of community has "internally determined intentions and objective prerequisites for the growth of its own potential, as well as economic, social and ecological development, and also possesses the necessary information, skills and authority. The model for the development of such an association includes available resources (internal and external), positive processes (which enable capacity building) and performance results (achievements)" (Ilyina, 2018, p.56). In the future, this category of communities should pay more attention to the development of partnerships with international municipalities, which will allow them to share experience and implement joint projects (U-LEAD, 2022). As it was noted by Yu. Polishchuk "international partnership is an equal relationship between local communities interacting with each other to achieve a common goal. A quality partnership is built precisely on the interest of each of the parties" (U-LEAD, 2022);

- for the second group of communities, which are characterized by a sufficient level of partnership capacity, it is advisable to apply measures of a stimulating nature that would contribute to the further realization of their potential and the deepening of partnership cooperation. In addition to the need to attract external resources, capable communities should focus on mobilizing their own assets, internal forces (investments, skills, experience), and communication (improving relations between residents, associations, institutions, foundations, etc) [Ilyina, 2018, p. 56]. Specifically, as noted by L. Chabak "when developing partnerships, it is necessary to involve representatives of all levels of the organization in this process. The communication component plays a significant role, so it is necessary to pay a lot of attention to it. Communities cannot delay the development of partnerships. They should consider the situation and act according to the principle of "here and now". The main thing is to have a strategic understanding of the need to develop such a partnership" (U-LEAD, 2022). At the same time, "the active participation of community members in solving various social problems of the local community allows them to consolidate efforts based on awareness of common interests, increases the effectiveness of interaction between social institutions operating within the local community" (Basyuk, Bezpalyko & Bratus, 2006, p. 4).
- for communities with a low level of partnership capacity it is suggested to apply a set of measures which must be actively implemented to strengthen their partnership interaction with other entities, involving all residents of the community. As it was marked by I. Zvereva "the involvement of people in the process of social changes planning related to the improvement of the situation for different members



of the community is possible due to unequal levels of their participation. The whole community needs to be aware of the changes. Proactive representatives of the community have the opportunity to give their suggestions, which are accepted by representatives of local authorities, institutions and organizations implementing various directions of social policy in the local community" (Basyuk, Bezpalyko & Bratus, 2006, p. 4).

According to (Makhnachova, 2018, p. 6), when studying the partnership, it is necessary to take into account the current context of relations between the residents of the local community, business representatives and local authorities. The formation of such social interaction should be based on the analysis of the state of public opinion, target audiences and their information requests. It is obvious that any development should take into account previous achievements and experience, including those of civil society institutions and experience of cooperation in international projects. Based on the results of the mentioned below author's research being a part of the analysis of the implementation of the project "Local development focused on the community" (Makhnachova, 2018), the level of influence of partnership cooperation on the development of local community has been determined. As it has been noted by the author, the indicative result of the study was the answers to the question "Who should solve the problem that worries the community?", where the causal relationship could be observed: representatives of those communities, where the "community-government-business" cooperation mechanism worked more effectively, more often selected the option "community" (39%) and the option "village head", regional, district (i.e. local) government (39%). Thus, active communities are communities that believed in their own strength and in their ability to change the quality of life in the localities with their skills, perseverance and joint efforts (Makhnachova, 2018, p. 4). At the same time, among the practical recommendations for enhancing of the local community activity and strengthening its partnership capacity, the experts single out the following: arranging public hearings, community meetings; work of advisory commissions, consultations, committees and councils; availability of ombudsmen – defenders of citizens' rights at the local level; informing about the work of "hotlines"; holding surveys, questionnaires, public debates, "round tables" meetings to resolve important issues; community education – holding free trainings, seminars, forums; holding contests within the community having clear goals and transparent intentions; creating a box for suggestions and working with letters of appeal from the community; printed, Internet, television, radio interviews with the community, and other activities (Burylo, 2022).

The main tools for establishing effective cooperation with business and creating better conditions for conducting entrepreneurial activities in communities are:

- promotion and sales (exhibitions, festivals, stimulation of local production in local community, including industrial tourism);
- cooperation between entrepreneurs (creation of marketing and production cooperatives, clusters, organization of business forums and conferences);
- training and consulting (creation of business incubators, banks of business ideas, organization of seminars and master classes for beginner entrepreneurs);
- development of business infrastructure (stimulating the opening of co-working spaces, business hubs, giving priority to the development of information and transport infrastructure in the business objects locations);
- finance and fixed assets (grants for business expansion, partial repayment of % on loans, reduction of tax rates, preferential lease of industrial premises and communal facilities, development of public-private partnership);
- support for the human capital development in communities, in particular youth (organization of personnel retraining courses, active collaboration with recruiting agencies, stimulation of the creation of youth spaces and development of youth leadership projects);
- development of the community image (development of the local community own brand, availability of community website and an active page in social networks, active presentation of the community at forums, conferences and seminars) (U-LEAD, 2022).

## Conclusions

Based on the results of semistructural interviews with heads of local communities, it was determined that when justifying approaches and interventions for the activation of partnerships in local communities, the key element would be the deepening of synergy between all participants of partnership relations.

It was determined that for communities with a high level of partnership capacity, it is suggested to apply measures that would support their development at the achieved level, as well as contribute to the further activation of their partnership cooperation, taking into account various exogenous and endogenous development factors, including in force majeure and crisis situations. For communities characterized by a sufficient (average) level of partnership capacity, it is advisable to apply measures of a stimulating nature that would contribute to the further realization of their

potential and the deepening of partnership cooperation. In addition to the necessity to attract external resources, capable communities should focus on mobilizing their own assets, internal forces (investments, skills, experience) and communication. Communities with a low level of partnership capacity are suggested to apply a set of measures that must be actively implemented to strengthen their partnership interaction with other entities, involving all residents of the community, in particular, it is necessary to take into account the current context of relations between local community residents, business representatives and local authorities.

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