

CONTEMPORARY ISSUES IN  
FINANCE: CURRENT CHALLENGES  
FROM ACROSS EUROPE

# CONTEMPORARY STUDIES IN ECONOMIC AND FINANCIAL ANALYSIS

## Recent Volumes:

- Volume 88: European Responses to Globalization: Resistance, Adaptation and Alternatives, Edited by Janet Laible and Henri J. Barkey
- Volume 89: Globalization: Perspectives from Central and Eastern Europe, Edited by Katalin E. Fabian
- Volume 90: Privatization in Transition Economies: The Ongoing Story, Edited by Ira W. Lieberman and Daniel J. Kopf
- Volume 91: Personal Injury and Wrongful Death Damages Calculations: Transatlantic Dialogue, Edited by John O. Ward and Robert J. Thornton
- Volume 92: Moving Beyond Storytelling: Emerging Research in Microfinance, Edited by Todd A. Watkins and Karen Hicks
- Volume 93: The Impact of the Global Financial Crisis on Emerging Financial Markets, Edited by Jonathan A. Batten and Peter G. Szilagyi
- Volume 94: Derivative Securities Pricing and Modelling, Edited by Jonathan A. Batten and Niklas Wagner
- Volume 95: The Developing Role of Islamic Banking and Finance: From Local to Global Perspectives, Edited by Fouad H. Beseiso
- Volume 96: Risk Management Post Financial Crisis: A Period of Monetary Easing, Edited by Jonathan A. Batten and Niklas F. Wagner
- Volume 97: Contemporary Issues in Bank Financial Management, Edited by Simon Grima and Frank Bezzina

CONTEMPORARY STUDIES IN ECONOMIC AND  
FINANCIAL ANALYSIS VOLUME 98

**CONTEMPORARY ISSUES  
IN FINANCE: CURRENT  
CHALLENGES FROM  
ACROSS EUROPE**

EDITED BY

**SIMON GRIMA**

*University of Malta, Malta*

**FRANK BEZZINA**

*University of Malta, Malta*

**INNA ROMĀNOVA**

*University of Latvia, Latvia*

**RAMONA RUPEIKA-APOGA**

*University of Latvia, Latvia*



United Kingdom – North America – Japan  
India – Malaysia – China

Emerald Group Publishing Limited  
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2017

Copyright © 2017 Emerald Group Publishing Limited

**Reprints and permissions service**

Contact: [permissions@emeraldinsight.com](mailto:permissions@emeraldinsight.com)

No part of this book may be reproduced, stored in a retrieval system, transmitted in any form or by any means electronic, mechanical, photocopying, recording or otherwise without either the prior written permission of the publisher or a licence permitting restricted copying issued in the UK by The Copyright Licensing Agency and in the USA by The Copyright Clearance Center. Any opinions expressed in the chapters are those of the authors. Whilst Emerald makes every effort to ensure the quality and accuracy of its content, Emerald makes no representation implied or otherwise, as to the chapters' suitability and application and disclaims any warranties, express or implied, to their use.

**British Library Cataloguing in Publication Data**

A catalogue record for this book is available from the British Library

ISBN: 978-1-78635-907-0

ISSN: 1569-3759 (Series)



Certificate Number 1985  
ISO 14001

ISOQAR certified  
Management System,  
awarded to Emerald  
for adherence to  
Environmental  
standard  
ISO 14001:2004.



INVESTOR IN PEOPLE

## LIST OF CONTRIBUTORS

<i>Marina Azzola</i>	University of Bergamo, Italy
<i>Peter J. Baldacchino</i>	University of Malta, Malta
<i>Frank Bezzina</i>	University of Malta, Malta
<i>Alessandro Danovi</i>	University of Bergamo, Italy
<i>Alina Dibrova</i>	University of Latvia, Latvia
<i>Tomasz Doróżyński</i>	University of Lodz, Poland
<i>Margarita Dunska</i>	University of Latvia, Latvia
<i>Konrad Farrugia</i>	University of Malta, Malta
<i>Lorraine Grech</i>	University of Malta, Malta
<i>Simon Grima</i>	University of Malta, Malta
<i>Irēna Kantāne</i>	University of Latvia, Latvia; Swedbank, Latvia
<i>Kaspars Kravinskis</i>	University of Latvia, Latvia; Bank of Latvia, Latvia
<i>Marina Kudinska</i>	University of Latvia, Latvia
<i>Patrizia Riva</i>	University of Piemonte Orientale, Italy
<i>Inna Romānova</i>	University of Latvia, Latvia
<i>Ramona Rupeika-Apoga</i>	University of Latvia, Latvia
<i>Alen Sacek</i>	University of Latvia, Latvia
<i>Svetlana Saksonova</i>	University of Latvia, Latvia

<i>Irina Solovjova</i>	University of Latvia, Latvia
<i>Janusz Świerkocki</i>	University of Lodz, Poland
<i>Norbert Tabone</i>	University of Malta, Malta
<i>Wojciech Urbaniak</i>	University of Lodz, Poland

# INTRODUCTION

The Emerald book series: *Contemporary Studies in Economic and Financial Analysis* special edition includes studies on different topical issues in finance by the participants of the 8th international scientific conference ‘New Challenges of Economic and Business Development – 2016’ organized by the Faculty of Economics and Management of the University of Latvia in May 2016 as well as papers of researchers from the University of Malta. The book contains research results obtained by researchers from various European countries, specifically Germany, Italy, Latvia, Malta and Poland.

The paper ‘Impact of Financial Literacy on Domestic Economic Activity in the Baltic States’ analyses the connection between financial literacy among several target audiences and the dynamics of domestic economic activity within the Baltic States (Estonia, Latvia and Lithuania). Considerable attention is also paid to literature about financial literacy and domestic economic activity in a historical, crisis-ridden and neoliberal perspective. By examining the relationship of financial literacy and domestic economic activity, a model based on the results of Delphi fuzzy method and a limited Organisation for Economic Co-operation and Development/International Network on Financial Education (OECD/INFE) Core survey, carried out in the Baltic States has been elaborated and examined, concluding, that the relationship is weak, but trends that have been identified are clearly recognizable throughout iterations. The lack of promotion and implementation of institutionalized targeted financial literacy activities in the Baltic States partially explains a positive association between financial knowledge and consumption behaviour, although survey results show levels of financial literacy above 74% throughout the Baltics. The development and analysis of the model has been successful as well, even though the results are statistically only partially significant. The analysis of the model still is important in illuminating the most important factors that influence domestic economic activity in the Baltic States and the relations with key financial literacy indicators.

The paper ‘Banking and FinTech: A Challenge or Opportunity?’ studies financial technologies (FinTech), that have become an integral part of banking. Nowadays banks have started to compete beyond financial

services facing increasing competition from non-financial institutions providing for example payment services. Start-up service providers, search engines and social networks have expanded their services ‘interfering’ in the fields traditionally covered by banks. The rapid rise of FinTech has changed the business landscape in banking asking for more innovative solutions. These recent tendencies require the banks to increase investment in financial technologies, rethink service distribution channels, especially the business-to-consumers models, increase further standardization of back-office functions, etc. Some members of the financial services industry see the boom in FinTech as a threat to traditional banking industry. Others believe that FinTech has become a challenge that can be turned into an opportunity as it provides more flexibility, better functionality in some areas and aggregation of services. The aim of the paper is to analyse the recent trends in banking, identifying opportunities and risks of FinTech for banks. A timely integration of FinTech into business allows banks to get an advantage in growing competition. This paper provides an extensive analysis of recent trends in FinTech and banking, examining experience of leading European and US banks, as well as surveys conducted among members of the financial services industry in different countries. The authors have studied the development of the financial innovation and technology market, assessed the existing practices applied in the field of FinTech, identified the main risks related to development of Fintech and financial innovations the banks are exposed to on the micro and macro level. The paper provides recommendations for regulators and banks to ensure reduction of risks associated with development of FinTech. Analysis of FinTech market has shown growing competition, including from non-financial institutions. The paper provides practical recommendations to commercial banks for strengthening the position in financial innovations and controlling the risks associated with introduction of financial innovations.

The paper ‘Analysis of Crowdfunding in European Union: Performance and Perspectives’ examines development of crowdfunding in the European Union. After the great economic crisis of 2008, the absolute overcome of which is still a matter of discussion, such topics as the needed raise in private investments and possible support to Small and Middle enterprises (SME’s) have been highlighted all over the European Union. Moreover, the paper highlights the opportunities in the alternative investment markets – in spite of the absent union understanding of the topic, alternative investment managed to increase significantly the access to finance mainly to start-ups and SME’s. The decent development of alternative



investment market and the impressive capacity it holds is now a fact. Recent studies suggest European alternative finance market to reach 2,957 millions of euro by 2014. While being aware of various challenges alternative investment market faces, for instance weak legislative regulation and in some cases, overall investment market underdevelopment, there are cases where impressive investment activity has been noted. The top target of this paper is while analysing the development of crowdfunding in European Union to perform a diverse analysis of this form of alternative investment and evaluate the potential crowdfunding might still possess. In order to implement a comprehensive analysis of crowdfunding the profile of potential investors, key sectors of interest as well as statistic data of the previous activity will be acknowledged. It is believed that the provided analysis will not only promote the overall understanding of this type of alternative investment but, while identifying the most common possibilities and drawbacks of crowdfunding attraction, would also introduce a certain benchmark for the further development of the alternative investment market especially in the countries, where a poor crowdfunding activity has been seen so far.

The paper 'Misuse of Derivatives: Considerations for Internal Control' examines the main 'sources' of derivatives misuse. Derivatives are nowadays widely used globally both for speculative and hedging purposes. However, as experience shows, inadequate use of derivatives may cause severe problems and even bankruptcy of firms. Thus, it is essential to help organizations design a robust pro-active governance and internal control structure, which will help to prevent new financial debacles and scandals when using derivatives. Taking into account frequent use and the growing fraud caused by derivatives, the aim of the paper is to identify considerations for internal control important to ensure better governance of firms using derivatives. The main findings are based on an analysis of interviews that were conducted with experts directly or indirectly involved with derivatives from different European countries. The interviews were semi-structured following the approach proposed by Patton (1990). An analysis of the data collected from the interviews was carried out using a thematic approach. The paper identifies and analyzes the main 'sources' of derivatives misuse, including poor design and mis-categorization of instruments, convenience to blame derivatives, unsophisticated players, insufficient regulatory environment, poorly designed internal controls, inadequate communication, poor firm culture, etc. This study provides an extensive analysis of the main recommendation for internal control concerning awareness of derivatives design, the human aspects, regulations, communication,

knowledge and training. Sound internal controls could avoid new debacles without adding other restrictions to the market. The paper provides recommendations for internal control important to ensure better governance of firms using derivatives.

The paper 'Profiles of SMEs as Borrowers: Case of Latvia' analyses the factors that interfere with the availability of funding to the small- and medium-sized companies. The availability of funding is one of the key problems in the small- and medium-sized business not only in Latvia but also all over the European economic space. The lack of funds results in the starvation of the economy preventing it from full-fledged development. The aim of the research is by developing the profiles of Latvian SMEs to analyse the factors that interfere with the availability of funding to the small- and medium-sized companies and to design recommendations for the more effective raising of funding in Latvia. During the research the following research methods were used: the generally accepted quantitative and qualitative research methods in economics, including the comparative analysis and synthesis and graphical depiction. The results of the analyses will be discussed and recommendation will be provided for policy makers and academician in the last section.

The paper 'Avoiding Bankruptcy in Italy: Preventive Arrangement with Creditors' studies Preventive Arrangements With Creditors in Italy. Italian Insolvency Law has been widely reformed since 2005 in order to introduce new legal procedures aimed at preserving troubled companies, discerning viable from irredeemable businesses and increasing productivity through a more efficient management of insolvency proceedings. The Economist called this process 'beautifying bankruptcy'. The excessive duration of bankruptcy cases was repeatedly brought to the attention of the European Court of Human Rights, relating to the right to a fair trial in terms of reasonable duration. With this above mentioned reformation in Italian Insolvency Law, the Preventive Arrangement with Creditors (Concordato Preventivo) became Italy's equivalent of US's Chapter 11 and can be considered the main instrument used by small- and medium-sized companies (and sometimes large ones) to manage insolvency by avoiding bankruptcy. This paper provides an empirical analysis on filing of Preventive Arrangements with Creditors in the Court of Milan, one of the largest in Italy, in the 2005–2014 period. Through the exam of 720 cases, 60% of the total number, the research shows the different features of the procedure, analyses the characteristics of company that resort to it and its diverse purposes of liquidation and restructuring. Due largely to the newness of the

legislation, along with the complexity of the Italian system, it is rather difficult to generalize conclusions. Nevertheless, the paper shows how Preventive Arrangements with Creditors can be considered a more efficient instrument than the alternative bankruptcy, both in terms of timeframe as well as with creditors' satisfaction. As part of the overall European reform process of insolvency proceedings, following the 2014 Recommendation issued by the European Commission, Italy seems to provide useful insights for other countries in Europe.

The paper 'Mergers and Acquisitions: Examples of Best Practice in Europe and Latvia' examines examples of mergers and acquisitions of European and Latvian firms, the motivation for these transactions and their results, and to show that the process of mergers and acquisitions has a positive impact on the development of the industry overall and on specific firms by increasing their competitiveness. The authors analyse the reasons for, meaning and impact of mergers and acquisitions on firm development, focusing on the example of dairy companies in Europe and subsequently on these processes in Latvian dairy industry. The study is based on the qualitative and quantitative analysis of firm financial reports as well as reports of the International Dairy Federation, publications of the United Nations Food and Agriculture Organization, annual reports of the International Farm Comparison Network, reports on the dairy industry in the European Union, Latvian Central Union of Dairy Producers, Lursoft firm registry data as well as reports of the Ministry of Agriculture and Latvian Farm Consultation and Education centre. The study uses methods of statistical comparisons by analysing firm operations before mergers or acquisitions as well as during the process and afterwards. Thus the authors were able to identify the impact of mergers itself on particular firms or the industry, while abstracting from further developments and the factors driving those. Mergers and acquisitions in Latvian dairy industry had begun in 2011 and continued until 2013; however the positive impact of this process was fully offset due to the geopolitical situation in Europe in 2015. The deterioration in geopolitical climate due to Russian-Ukrainian relations has had a big impact on economic processes affecting also the development strategy of dairy firms. This study finds that often the problems of firm development are related to the lack of financial management especially deficiencies in decision-making on mergers and acquisitions of firms. Historical and statistical analysis as well as comparisons of successful experiences in Europe and Latvia allow the authors to conclude that in evaluating decisions on the possibilities for mergers and acquisitions

Latvian firms have to be guided by the most important results of this process: possible increases in foreign direct investment and the growth in market share. This will, in turn, give the firms an opportunity to acquire new technologies, reorganize manufacturing processes and start producing goods with larger value added. Ultimately this will allow to increase firm values.

The paper ‘Critical Factors of Pre-Acquisition Due Diligence in Cross-Border Acquisitions’ examines critical factors – and their inclusion in the pre-acquisition due diligence. Cross-border acquisitions play an important role in corporate strategic development and international expansion. During the past decades, mergers and acquisitions have been intensively researched through the lenses of strategic management, corporate finance, behavioural finance, etc. Despite the intense effort, the progress made is still fragmented and lacks unifying theories that approach the entire acquisition process on the one hand, and in-depth research of critical factors on the other. The intent of the research paper is to establish a vital link between academic research and practice of mergers and acquisitions, especially regarding the pre-acquisition evaluation. In detail, the research paper investigates critical factors – and their inclusion in the pre-acquisition due diligence, before decision about acquisition is made. Pre-acquisition due diligence theoretically conforms to organizational learning theory, which proposes the more the acquiring firm learns about the acquisition target, the higher the probability of a successful acquisition. The central hypothesis states that due diligence, including the critical factors, in the pre-acquisition phase is related to acquisition success. Using a multi-dimensional measure of critical factors, the empirical evidence is based on 85 cross-border acquisitions that took place between 2007 and 2013 in the European automotive industry. The quantitative analysis finds positive association between the Choice of Strategic Partner, Business Capabilities and HR Knowledge and Financial Factors and Acquisition Premium as critical factors of due diligence and acquisition success. The strongest relationship is between business capabilities and knowledge transfer as the main asset for realization of synergy values and successful acquisition. In this context, the valuation of the business capabilities of the acquisition targets is classified as the main challenge for reflecting suitability of the acquisition price and establishing value generation from the combined firms in the post-acquisition phase. By studying acquisition risk and critical factors – both success and failure reasons – this research tested and proved theoretically sound framework for successful acquisition. From a practical standpoint, the research results provide acquisition management

with a proven model for pre-evaluating acquisition candidates by means of comprehensive due diligence.

The paper 'The FDI Inflow to Special Economic Zones in Poland' examines why certain special economic zones in Poland attracted more FDI comparing to the others. One of the ways of convincing investors, in particular foreign ones, to take part in the implementation of state programmes and intentions is the development of Special Economic Zones (SEZ) designed to ensure more favourable business environment than those available in other locations. Poland has created and developed the SEZ. They play positive role in attracting foreign direct investment (FDI) or creating new jobs but also may have negative consequences, such as deepening regional disproportions in the country. This paper aims at examining why certain SEZ in Poland attracted more FDI than other. In our opinion that may result from the location in a particular region (understood as a unit of administrative division of the country at the level of a voivodeship). The study uses statistical methods (Spearman's rank correlation and Pearson correlation). We also used data that inform about the inflow of foreign investment to SEZ at regional level and rankings of investment attractiveness of voivodeships. In accordance with our calculations, there are statistically significant positive relationships between FDI inflow to SEZ and collective, as well as some partial, investment attractiveness coefficients and the level of economic advancement of voivodeships. Thus, it seems that SEZ do not reduce regional differentiation in Poland. The results may suggest the need to reconsider the so far applied policy designed to support investors. At the same time, they prove that State interference intended to mitigate market imperfections may itself become the source thereof.

The paper 'An Analysis of Audit Report Lags in Maltese Companies' investigates the audit report lag (ARL) in statutory audits. It tests a number of factors that may influence the ARL in 375 Maltese companies in the years 2006–2010. A mixed-methods research methodology is adopted, whereby company financial statements over the period are examined. Extracted information, including the ARL, is subjected to statistical tests on the relationship between such ARL and six independent variables: company size, audit firm size, audit opinion, profitability, the presence of an extraordinary item and type of industry. This is then complemented by the analysis of 12 semi-structured interviews with statutory auditors. The ARL is found to be shorter in large companies, when profit figures are positive, in financial service companies, and when the audit firms are large. A longer ARL is found when the audit report is qualified and in the absence of an extraordinary item. Interviewee response is generally

consistent with these results except for the relationship to ARL of the absence of an extraordinary item. ARL is also seen to vary according to the users' perceptions of the relevance and usefulness of the financial statements. Besides confirming or otherwise the relationship of the ARL to the stated major factors, the study also brings to light the need for co-operation by both audit firms and client companies to reduce such ARL.

Simon Grima  
Frank Bezzina  
Inna Romānova  
Ramona Rupeika-Apoga  
*Editors*