

## **Peculiarities of Bankruptcies, Restructuring, Mergers and Acquisitions in Lithuania in the Post-Crisis Period**

**Kristina Garskaite-Milvydiene, Daiva Burksaitiene**

*Vilnius Gediminas Technical University*  
Sauletekio av. 11, LT-10223, Vilnius, Lithuania  
E-mail. kristina.garskaite@vgtu.lt; daiva.burksaitiene@vgtu.lt

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*The processes of bankruptcy and restructuring of enterprises used to raise and continue to raise a wide range of controversial assessments. The article examines statistics of the bankruptcy and restructuring of enterprises, problems and ways of their resolution and analyses mergers and acquisitions and their causes. The majority of enterprises merge in order to expand their activities and to diversify the risks associated with such activities. Smaller enterprises, which are incapable of competing in the international market, are forced to bring themselves under the protection of large international enterprises. The mergers and acquisitions of enterprises take place also in order to capture new technological opportunities, to enhance an enterprise's trademark, to achieve a variety of synergistic effects, economies of scale and management, improved allocation of resources and market power gains and to attain a number of other goals. Thus, in times of globalisation and the free movement of capital the issues of mergers and acquisitions are becoming increasingly topical due to the emerging opportunities of seeking alliance or acquisition in international markets.*

*The aim of this research is to identify peculiarities of restructuring, mergers and acquisitions in Lithuania in the post-crisis period. The object of the research is the bankruptcy and restructuring of enterprises as well as, mergers and acquisitions of enterprises in the Baltic States and European countries. Research methods: analysis of statistical data and scientific literature.*

**Keywords:** *Bankruptcy and Restructuring of Enterprises, Profitable and Loss-Making Enterprises, Restructuring Measures, Mergers and Acquisitions.*

### **Introduction**

The processes of bankruptcy and restructuring in society were used to raise and continue to raise a wide range of controversial assessments. Some enterprises, being incapable of competing for an outlet for goods, collapse, others commence their operation. The application of restructuring measures has become a usual process assisting enterprises in solving problems. This process is inevitably promoted by the integration of countries' economic systems and globalisation processes, market changes, growing competition among business entities and their desire to maintain or to strengthen their positions on the domestic and foreign markets. Therefore, modern business environment is inseparable from the challenges, businesses are facing and thus forces them to search for new ways of maintaining a business on the market and to undertake the measures enhancing operational efficiency, while the growing needs of consumers encourage to continuously improve production and its quality, the intensified movement of workforce forces to increase the motivation of an enterprise's employees and satisfaction of their needs.

One way of restructuring, namely, mergers and acquisitions, is becoming increasingly common, as the business environment is complex and is continuously changing. Most enterprises merge in order to expand their activities and to diversify the risks associated with such activities. Smaller enterprises, which are incapable of competing in the international market, are forced to bring

themselves under the protection of large international enterprises. The main reasons for business mergers are economic growth, diversification, tax benefits, profile and economies of scale. The topic of mergers is becoming an object of research for the continuously growing number of scientists in different fields around the world.

Thus, in times of globalisation and the free movement of capital the issues of mergers and acquisitions of enterprises are becoming increasingly topical due to the opportunities of seeking alliance or acquisition in international markets. Mergers and acquisitions of enterprises are generally more frequent under good economic conditions in the hope of a future which would at least be not worse, if not better, to help to capture new technological opportunities, to enhance an enterprise's trademark, to achieve a variety of synergistic effects, economies of scale and management, improved allocation of resources and market power gains and to attain a number of other goals.

Mergers and acquisitions have very complex impact on business processes and international trade.

Literature analysis has revealed that some research has already been done regarding the studied issue, but mostly based on the data of advanced economies and on the motives and consequences of these processes. Studies of consequences of mergers and acquisitions have demonstrated, that "general partners who are ex-consultants or ex-industry managers are associated with outperforming deals focused on internal value-creation programs, and ex-bankers or ex-accountants with

outperforming deals involving significant mergers and acquisitions” (Acharya *et al.*, 2013). This means that specific knowledge of such specialists stimulates value creation. From the other point Fu *et al.* (2013) analyzed the acquisitions driven by stock overvaluation. Arkolakis & Ramanarayanan (2009) proved that the degree of vertical specialization varies with trade barriers. They found little dependence of business cycle synchronization on trade intensity and significant influence of imperfect competition. Branstetter (2006) has proved that FDI increases the flow of knowledge spillovers both from and to the investing firms. Brezis *et al.* (1993) found peculiar consequences of mergers and acquisitions on technological leadership, named as leapfrogging – “the new technology does not initially seem to be an improvement for leading nations, given their extensive experience with older technologies. Lagging nations have less experience; the new technique allows them to use their lower wages to enter the market. If the new technique proves more productive than the old, leapfrogging of leadership occurs”. Campbell *et al.* (2008) found interesting relationship between financial situations of the firms and their long term profitability – “Since 1981, financially distressed stocks have delivered anomalously low returns. They have lower returns but much higher standard deviations, market betas, and loadings on value and small-cap risk factors than stocks with low failure risk”. Chakrabarti & Mitchell (2013) mentioning the difficulty of distant mergers and acquisitions due the search cost increase with distance, particularly when search involves greater information processing, but that firms can partially overcome the constraints of distance.

Cook (2002) analyzed influence of pro-cyclical market entry as an international transmission mechanism for business cycle shocks. Davis & Huang (2011) pointed out another aspect of this mechanism – “how the sum of strategic pricing decisions made at the level of the individual firm can have significant effects on the volatility and cross country co-movement of GDP and its components. ... the addition of this one channel for strategic interaction leads to a significant increase in the cross-country co-movement of production and investment, as well as a significant decrease in the volatility of investment and the trade balance”. Deng *et al.* (2013) added significance of corporate social responsibility and stakeholder value maximization for the consequences mergers and acquisitions – “mergers by high CSR acquirers take less time to complete and are less likely to fail than mergers by low CSR acquirers”. Drees & Heugens (2013) analyzed significance of institutional factors for mergers and acquisitions and found “that the adoption of the Horizontal Merger Guidelines in the U.S. has caused organizations to flee from mergers to less regulated arrangements like alliances and joint ventures, and has hurt the profitability of the remaining mergers”. Edwards & Edwards (2013) analyzed employee responses to changing aspects of the employer brand following a multinational acquisition and significance as predictors of “perceptions linked to the provision of unique employment experiences, organizational identity strength, perceived prestige, and judgments of whether the acquiring

organization acts in accordance with its corporate identity claims”.

The article examines statistics of the bankruptcy and restructuring of enterprises, problems and ways of their resolution and analyses the causes leading to the processes of merger and acquisitions of enterprises in Lithuania.

The research problem is how applicable for such a transition economy as Lithuania is findings of other authors, e.g., Arkolakis & Ramanarayanan (2009), Chakrabarti & Mitchell (2013), Drees & Heugens (2013) on dependence of business cycle synchronization on trade intensity and significant influence of imperfect competition and difficulty of distant mergers and acquisitions and significance of institutional factors for mergers and acquisitions. The authors are the first to delve into this particular topic.

*The aim of the present research* is to identify peculiarities of restructuring, mergers and acquisitions in Lithuania in the post-crisis period.

The object of the research is the bankruptcy and restructuring of enterprises and related measures, mergers and acquisitions of enterprises.

Research methods: analysis of statistical data and of scientific literature, multiply correlation and multiply regression analysis.

The scientific significance of the article is in the revelation of specifics of economic crisis impact on the dynamics of restructuring, mergers and acquisitions in Lithuania with her transitions economy characterised by amplified reactions to economic shocks, what may be elaborated also for mature economies.

## **Bankruptcy and Restructuring Processes in Lithuania**

During the period from 1993 until 31 December 2015, bankruptcy was declared in Lithuania in respect of 18 207 enterprises and 16 banks, of which 13 952 enterprises (76.6 per cent) and 14 banks (87.5 per cent) completed bankruptcy proceedings (13 576 enterprises were liquidated, 192 bankruptcy proceedings were annulled, 184 enterprises had their bankruptcy proceedings or extrajudicial bankruptcy proceedings terminated, of which 3 enterprises were reorganised, 17 enterprises – rescued, 83 enterprises entered into settlement agreements, 60 enterprises settled with creditors, creditors of 21 enterprises waived their claims). At the end of 2015, bankruptcy proceedings were being carried out in respect of 4 256 enterprises, of which liquidation proceedings were being carried out in 3 028 enterprises, a decision on further bankruptcy proceedings was pending in respect of 1 228 failing enterprises.

During 2015, bankruptcy proceedings were initiated against 1 986 enterprises, i. e. 2 per cent of the total number of economic entities operating in the country. This figure is by 301 enterprises or 17.9 per cent higher than in 2014 (1 685 enterprises) (Imoniu bankrotas, imoniu restruktūrizavimas, 2016) (Table 1).

Table 1  
Number of Initiated and Completed Bankruptcy Proceedings in Lithuania in 2004–2015

Year	Number of completed bankruptcy proceedings	Number of initiated bankruptcy proceedings
2004	646	709
2005	768	773
2006	764	759
2007	785	606
2008	672	957
2009	558	1844
2010	688	1637
2011	1004	1273
2012	1382	1401
2013	1449	1552
2014	1606	1685
2015	1849	1986

Source: Imonių bankrotas, imonių restruktūrizavimas, 2016

It can be observed from the table above that the number of bankruptcies is growing annually, and the growth rate is relatively intensive. Over the entire mentioned period, the number of initiated bankruptcy proceedings has increased by 64 per cent. The highest growth rate of bankruptcies was observed in 2009, during the crisis period. In 2009, compared to 2008, the number of initiated bankruptcy proceedings increased almost twofold. This situation can be explained by the fact that before the outbreak of the crisis, the country's economic situation was good, most businesses flourished, and with the beginning of the crisis all the processes slowed down (Burksaitienė & Mazintienė, 2011; Valackienė, 2011; Grajauskas, 2014; Paskevicius & Jurgaitytė, 2015).

Thus, the effects of the crisis have started to manifest themselves since 2009, and the period from 2010 until 2012 is characterised by a sharp rise in the number of bankruptcies. Since 2015, the situation has stabilised, but the number of failing enterprises in Lithuania continues growing. An overview of bankruptcies of enterprises in Lithuania allows for the observation that since 2012, the growth in the number of bankruptcies has stabilised, though the rate remains high and upward. This situation can be explained, on the one hand, by the fact of businesses recovering from the crisis, the increasing number of start-ups, though a part of such businesses fail and have to go bankrupt. On the other hand, bankruptcies of some enterprises cause a chain reaction for other enterprises hence the growing number of bankruptcies of enterprises in the country shows the instability of the business situation. The same trend is visible also in the context of restructuring.

During the period from the beginning of the application of the Law on Restructuring of Enterprises (Lietuvos Respublikos imonių restruktūrizavimo įstatymas, 2001) until 31 December 2015, restructuring proceedings were initiated in respect of 393 enterprises, of which 21 enterprises successfully completed restructuring (though in 2011 and 2014 bankruptcy proceedings were initiated in respect of two of them), restructuring proceedings were terminated in respect of 243 enterprises (of which 195 enterprises entered bankruptcy proceedings) and are still in progress in respect of 123 enterprises (Imonių bankrotas, imonių restruktūrizavimas, 2016) (Table 2). During 2015, 40 restructuring proceedings were initiated, i. e. by 9

enterprises (29 per cent) more than during the corresponding period of 2014 (31 enterprises).

Table 2  
Dynamics of the Number of Initiated and Completed Restructuring Proceedings in Lithuania

Year	Number of completed restructuring proceedings	Number of initiated restructuring proceedings
2001	0	2
2002	0	10
2003	0	9
2004	0	4
2005	2	5
2006	2	4
2007	1	3
2008	0	4
2009	0	71
2010	0	60
2011	2	58
2012	0	44
2013	1	48
2014	7	31
2015	11	40

Source: Imonių bankrotas, imonių restruktūrizavimas, 2016

It is observed that as regards the period under consideration, the number of restructuring proceedings increased significantly in 2009, which could also, along with bankruptcy proceedings, be associated with the beginning of the crisis period.

In analysing the business situation in Lithuania, it is appropriate to consider the number of profit- and loss-making enterprises and their structure (Pelningai ir nuostolingai dirbancios imones, 2016) (Table 3).

Table 3  
Data on Profit- and Loss-Making Enterprises in Lithuania in 2005–2014

Year	Profitable enterprises	Loss-making enterprises	Percentage of profitable enterprises in relation to the total number of registered enterprises, per cent	Percentage of loss-making enterprises in relation to the total number of registered enterprises, per cent	Registered economic entities
2005	20698	11999	63,0	37,0	32697
2006	23868	13172	64,0	36,0	37040
2007	26196	14933	63,6	36,4	41129
2008	23129	21533	51,7	48,3	44662
2009	23992	21572	52,6	47,4	45564
2010	25035	23710	51,3	48,7	48745
2011	30529	21338	58,8	41,2	51867
2012	33169	22343	59,7	40,3	55512
2013	37168	23539	61,2	38,7	60707
2014	51248	13463	79,1	20,9	64712

Source: Pelningai ir nuostolingai dirbancios imones, 2016

The data presented in Table 3 show the increasing number of profitable enterprises. Moreover, the ration of profit- to and loss-making enterprises and their share in the total number of registered enterprises bear witness to the improving business situation in Lithuania. These indicators show that as regards the period under analysis, the deterioration of the situation was seen in 2008–2010, when this situation was caused by the global crisis and the crisis period.

### Correlation and Regression Analysis of Bankruptcies in Different Economic Activities

Table 4

The Number of Initiated Bankruptcy Proceedings in Different Economic Activities of Lithuania, Yearly, 1995–2015

Year	x <sub>1</sub>	x <sub>2</sub>	x <sub>3</sub>	x <sub>4</sub>	x <sub>5</sub>	x <sub>6</sub>	x <sub>7</sub>	y
1995	0	22	3	5	0	2	1	54,7
1996	7	20	8	34	0	3	0	57,6
1997	2	45	14	31	2	4	2	62,3
1998	3	43	8	26	4	1	3	67,0
1999	18	87	24	79	14	7	1	66,3
2000	32	123	49	151	19	7	3	68,7
2001	39	178	58	234	19	16	3	73,3
2002	49	209	73	336	37	27	6	78,4
2003	34	140	46	303	25	16	5	86,4
2004	37	139	56	321	41	28	9	92,8
2005	30	175	68	307	56	28	11	100,0
2006	36	189	55	346	38	23	1	107,8
2007	29	128	78	236	35	19	6	118,4
2008	34	204	190	262	79	47	25	121,8
2009	28	312	435	428	274	62	78	103,7
2010	28	223	358	437	180	78	106	105,4
2011	21	149	265	338	129	82	75	111,8
2012	27	185	270	413	117	98	61	115,9
2013	35	165	253	479	177	108	47	119,6
2014	25	170	294	444	210	128	64	123,3
2015	30	173	339	576	175	147	76	125,3

Source: calculations based on Statistics Lithuania 2016 data

Variables (Table 4) are as follow:

- x<sub>1</sub> - Agriculture, forestry & fishery
- x<sub>2</sub> - Manufacturing
- x<sub>3</sub> - Construction
- x<sub>4</sub> - Distributive trades
- x<sub>5</sub> – Transport & storage
- x<sub>6</sub> - Accommodation & food services
- x<sub>7</sub> - Real estate activities
- y - GDP index, 2005 – 100 %

Table 5

Multiply Correlation of Initiated Bankruptcy Proceedings in Different Economic Activities and GDP of Lithuania, 1995–2015

	x <sub>1</sub>	x <sub>2</sub>	x <sub>3</sub>	x <sub>4</sub>	x <sub>5</sub>	x <sub>6</sub>	x <sub>7</sub>	y
x <sub>1</sub>	1							
x <sub>2</sub>	0,7498	1						
x <sub>3</sub>	0,2623	0,7228	1					
x <sub>4</sub>	0,6752	0,8062	0,8002	1				
x <sub>5</sub>	0,2594	0,7134	0,9699	0,8006	1			
x <sub>6</sub>	0,2776	0,5112	0,8583	0,8474	0,8457	1		
x <sub>7</sub>	0,1364	0,5889	0,9576	0,7330	0,9044	0,8415	1,0000	
y	0,5042	0,6676	0,7326	0,8502	0,7146	0,7951	0,6530	1

Multiply regression equation (variables selected according to the Table 5 data) for the relationship of GDP and bankruptcy initiations in Lithuania for the period of 1995-2015 is as follows:

$$y = 60,341 + x_1 0,481 + x_2 0,060 + x_3 0,176 + x_4 0,112 + x_5 0,187 + x_6 0,200 + x_7 0,485.$$

Table 6

#### Regression Statistics

Regression Statistics	
Multiple R	0,880924
R Square	0,776027
Adjusted R Square	0,655426
Standard Error	14,28392
Observations	21

Though Table 6 confirms rather strong relation, of course, this equation does not mean causality between these variables, but it is useful for the analysis of general development of economy.

For the period of 2008 to 2015 these correlations change significantly (Table 7). If in period 1995-2015 bankruptcy proceedings in all 7 economic activities significantly correlated (correlation coefficient more than 0.5) with the GDP of Lithuania, in 2008-2015 only 5 economic activities significantly correlated with the GDP and in four of the activities correlation coefficient has changed their sign.

Table 7

Multiply Correlation of Initiated Bankruptcy Proceedings in Different Economic Activities and GDP of Lithuania, 2008–2015

	x <sub>1</sub>	x <sub>2</sub>	x <sub>3</sub>	x <sub>4</sub>	x <sub>5</sub>	x <sub>6</sub>	x <sub>7</sub>	y
x <sub>1</sub>	1							
x <sub>2</sub>	0,1188	1						
x <sub>3</sub>	-0,2579	0,6991	1					
x <sub>4</sub>	0,0934	-0,0599	0,5251	1				
x <sub>5</sub>	-0,1339	0,5868	0,8622	0,5447	1			
x <sub>6</sub>	-0,0927	-0,5403	0,0812	0,8178	0,1982	1		
x <sub>7</sub>	-0,5408	0,2521	0,7618	0,4462	0,5093	0,1740	1	
y	0,3334	-0,6676	-0,6053	0,1878	-0,3966	0,5927	-0,6116	1

Figure 1 presents sharp increase of initiated bankruptcy proceedings in most areas, in year 2009, just after the crisis, except agriculture and accommodation & food services, and sharp decrease of initiated bankruptcy proceedings in 2011. The reasons for faster growth of initiated bankruptcy proceedings in distributive trades, accommodation & food services and transport & storage after 2011 lay also in external factors – changes in law, international trade conflicts, etc. Huge impact for bankruptcies in distributive trade had further concentration of enterprises in this sector and increasing restrictions on imports of used cars in traditional export directions – such, as Russia and Kazakhstan. Increased pressure of tax collection efficiency improvement also pushed many car repair and trade together with construction enterprises to bust.

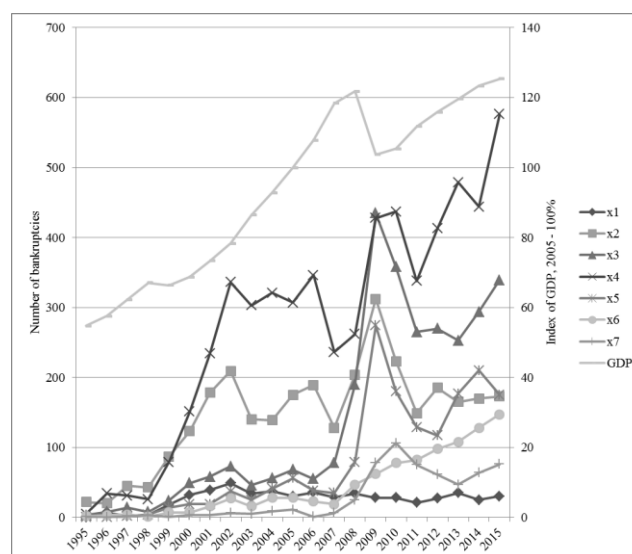


Figure 1. Initiated Bankruptcy Proceedings in Different Economic Activities and GDP of Lithuania, 1995–2015

## Mergers and Acquisitions of Enterprises as Restructuring Measures

The restructuring of enterprises is most often seen as changes in an enterprise and the actions aimed at overcoming a greater or lesser crisis faced by the enterprise, restoring the enterprise's activities and increasing their efficiency (Agrawal & Knoeber, 2012; Valackiene, 2011; Stankeviciene, 2012; Garskaite-Milvydiene, 2014a). Other authors describe the enterprise restructuring process as a potential economic and legal instrument applicable to the enterprises found in a critical situation that seek to change the direction of their economic and commercial activities, the nature of the products and services offered by them on the market and/or the structure of their financial obligations (Edwards & Edwards, 2013; Nikolaeva, 2012). Restructuring is referred to also as the totality of measures of an enterprise's management and activity transformation intended to create a synergistic effect (Grant, 2003; Brigham & Daves, 2012). Gaughan (2015). Restructuring is also treated as the rationalisation of an enterprise's activities in order to increase the enterprise's competitiveness, adapting to the changing conditions of the environment, and to increase the enterprise's value. Restructuring is also associated with the measures aimed at increasing the competitiveness of an enterprise and, at the same time, its value (DePamphilis, 2010; Mickeviciene & Zitkus, 2011; Garskaite-Milvydiene, 2014b). It is also claimed that the essence of restructuring of enterprises is the variety of actions aimed at enhancing an enterprise's operational efficiency by transforming its organisational and administrative structure (Ginevicius *et al.*, 2005). Thus, in the course of the enterprise's restructuring its separate structural units are merged or divided, and functions are transferred to other structural units, are decentralised or centralised.

The Lithuanian legislation regulates the restructuring process and presents it as an opportunity of rescuing enterprises found in temporary financial difficulties. The Law of the Republic of Lithuania on Restructuring of Enterprises (Lietuvos Respublikos imoniu restruktūrizavimo įstatymo pakeitimo įstatymas, 2010) defines restructuring as the implementation of the change of an economic activity sector, upgrading of production, improvement of work organisation, sale of an enterprise's assets or part of the assets, takeover of assets of other enterprises through their merger or division and the technical, economic and organisational measures intended to restore the enterprise's solvency, the resizing and rescheduling of the enterprise's obligations to its creditors. Thus, the Lithuanian law narrows restructuring to the resolution of insolvency issues, although in practice restructuring provides more opportunities for enterprises (Ginevicius *et al.*, 2005; Garskaite-Milvydiene, 2014a): to adapt to operate under conditions of the market economy and economic integration; to create preconditions for maintaining high profitability indicators; to ensure competitiveness on the domestic and international levels.

In the course of restructuring of an enterprise, one of the most important elements is the target to be achieved. The analysis of theoretical and practical aspects of restructuring allows for the observation that there exist

certain links between restructuring targets and the measures usually applied in practice (Ginevicius *et al.*, 2005; DePamphilis, 2010; Stukas & Miecinskiene, 2010; Gaughan, 2015; Agrawal & Knoeber, 2012; Garskaite-Milvydiene, 2014a, 2014b). The targets of enterprise restructuring determine the choice of respective ways and instruments of enterprise restructuring (Table 8). All the ways of enterprise restructuring listed in Table 8, with the exception of changes in the rights of the board and the administration, are attributed to the external type of restructuring. An enterprise's division and liquidation, exchange of property rights between the parent company and the subsidiary, partial takeover of property rights and changes in the rights of owners may be assigned both to the external and the internal types of restructuring.

Table 8

Target-Oriented Ways of Restructuring of Enterprises

Targets of restructuring of enterprises	Ways of restructuring of enterprises
<ul style="list-style-type: none"> <li>• Expansion of the enterprise's activities;</li> <li>• Maintenance of the existing market share;</li> <li>• Utilisation of excess capacity.</li> </ul>	<ul style="list-style-type: none"> <li>• Merger of enterprises;</li> <li>• Acquisition of the enterprise;</li> <li>• Establishment of a joint venture.</li> </ul>
<ul style="list-style-type: none"> <li>• Reduction or utilisation of the enterprise's excess capacity;</li> <li>• Improvement of the management of activities (several areas of activities or diversified activities).</li> </ul>	<ul style="list-style-type: none"> <li>• Partial transfer of the enterprise's property rights to a third party (transfer of economically inefficient assets to another entity);</li> <li>• Establishment of a subsidiary (when the authorised capital is formed by ensuring the control of the majority holding in the newly established enterprise from contributions of owners of the parent company in order to utilise the excess capacity for the purposes of expansion of the subsidiary's activities);</li> <li>• Division of the organisational structure of the enterprise (sale, liquidation of divisions);</li> <li>• Exchange of property rights between the parent company and the subsidiary (by conferring to the shareholders not controlling the majority holding in the enterprise the right to increase the number of voting shares belonging to them, allowing for a more efficient use of human, material and financial resources);</li> <li>• Liquidation of the enterprise by establishing independently operating enterprises on the basis of its divisions.</li> </ul>
<ul style="list-style-type: none"> <li>• Rationalisation of the enterprise's management system (through modification of the management system).</li> </ul>	<ul style="list-style-type: none"> <li>• Partial takeover of property rights (upon completion of the takeover, changes in the management rights of the board and the administration may be initiated);</li> <li>• Changes in the rights of owners;</li> <li>• Changes in the rights of the board and the administration.</li> </ul>
<ul style="list-style-type: none"> <li>• Improvement of the enterprise's financial management</li> </ul>	<ul style="list-style-type: none"> <li>• Peculiarities of the ways of restructuring applicable to achieve this target are partially characteristic of the ways listed above.</li> </ul>

Source: Brigham & Daves, 2012; Ginevicius *et al.*, 2005; Gaughan, 2015

The summarised data presented in Table 8 show that one of the best ways to achieve the targets of activity expansion, utilisation of the market share and excess capacity is a merger or acquisition of an enterprise or establishment of a joint venture. These cases of the acquisition of enterprises or their merger are associated with enterprise restructuring or reorganisation also in the context of influence and ownership (Ginevicius *et al.*, 2005; Gaughan, 2015; Agrawal & Knoeber, 2012). Thus, it can be claimed that in practice, with a view to enhancing competitive advantage the enterprises having at their disposal advanced technologies and highly qualified employees are often purchased or merge themselves to achieve greater efficiency of utilisation of unified (human, material and financial) resources.

Business' mergers and acquisitions may be linked with a number of reasons, both economic and personal, however the main reasons may be described as follows (Campbell *et al.*, 2008; Burksaitiene, 2010; Baraz & Sakar, 2011; Parikh, 2011; Didenko *et al.*, 2012; Kotane & Kuzmina-Merlino, 2012; Stankeviciene *et al.*, 2014; Paskevicius & Jurgaityte, 2015): creation of business value; change of the field of activity; withdrawal from business; recovery of investment; the personal interest of executives (the aspect of an enterprise's internal policy); environmental factors; fierce competition in the market; characteristics of the enterprise.

In order to determine the strategic targets of mergers and acquisitions of enterprises, one should identify possible types of mergers, which in turn determine the key targets pursued by executives of the enterprises and search for opportunities (Cullen & Praveen Parboteeah, 2011; Burkart *et al.*, 2012; Gawer, 2012; Nikolaeva, 2012; Milichovsky & Simberova, 2015). Mergers and acquisitions are generally grouped into three categories

(Grant, 2003; Brigham & Daves, 2012; Ginevicius *et al.*, 2005; Lin *et al.*, 2008; DePamphilis, 2010):

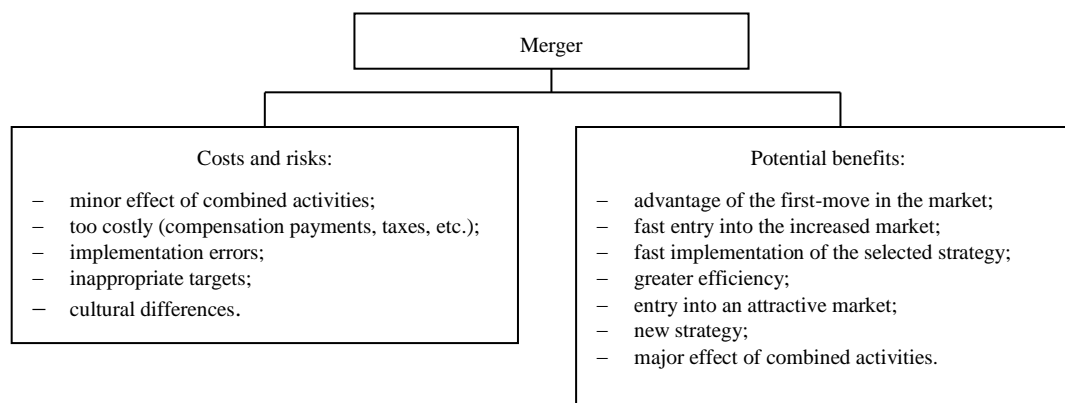
- horizontal – mergers of competing enterprises in the same industry segment;
- vertical – mergers of enterprises bound by certain links, such as buyer-seller or customer-supplier;
- conglomerate – mergers of enterprises from completely different industries.

Thus, depending on the ways of restructuring which apply to a new business some of them may be as follows:

- acquisitions – a transaction in which one enterprise or natural person acquires another business. Such an acquisition is usually financed with cash or using a certain debt financing instrument (e.g. by issuing bonds);
- mergers – a transaction in which a completely new enterprise is created, while former enterprises are joined into the new entity.

As regards mergers of enterprises, the impact may be minimal in the cases when merely an agreement is concluded between the enterprises for the purchase and sale of products bearing common specification, or considerable in the cases when two enterprises decide to merge. A stronger impact usually leads to a stronger alliance. Such alliances can help to shorten time limits and to increase corporate power (Burkart *et al.*, 2012; Gawer, 2012). Time plays a critical role here, as by entering into a new segment one seeks to gain the first-step advantage (placement of a new product on the market) when it comes to occupy the market, which has increased due to the process of globalisation. In this way, a quick transfer of resources from one place to another guarantees business success in the segment concerned (Ginevicius *et al.*, 2005).

Creation of mergers is linked with costs and risks, though there are advantages too.



**Figure 2.** Advantages and Disadvantages of Mergers

Source: Developed by Authors Based on Grant, 2003; Brigham & Daves, 2012; Ginevicius *et al.*, 2005; DePamphilis, 2010

It is advised to refuse to create a merger for two reasons: firstly, when the costs outweigh the benefits and, secondly, the relevant experience should be relied upon (Figure 2) (Grant, 2003; Brigham & Daves, 2012; Ginevicius *et al.*, 2005; Lin *et al.*, 2008; DePamphilis, 2010), i. e. the pre-requisite for success of a successfully operating alliance – the projected benefits must exceed the costs and the risks by at least 25 per cent.

The best time to sell an enterprise is when the profits

are high and growing. When selecting the timing of the sale of the enterprise, it is of much importance to take into account the economic cycle (Grant, 2003; Brigham & Daves, 2012; DePamphilis, 2010). There are basically two ways of purchasing an enterprise: to buy the enterprise as a property complex or to purchase a holding of shares in the enterprise (all of the enterprise's shares, a major holding of shares, or at least a significant part of it). However, the acquisition of the enterprise as a property complex is

highly complicated. The acquisition of the enterprise by buying a holding in the enterprise is considerably more common. In this way, the investor acquires the enterprise by simply purchasing from the seller a holding in that enterprise. Such a procedure is at least formally relatively simple and fast. The purchase of a holding in an enterprise is almost always a rather risky procedure due to a whole range of risk factors that accompany the purchase of the enterprise in this way. Unless they are under control, the person buying the holding of shares in the enterprise risks making a purchase which can bring him heavy losses.

To sum up, mergers and acquisitions may be described as offering the following advantages (Grant, 2003; Brigham & Daves, 2012; Ginevicius *et al.*, 2005; Lin *et al.*, 2008; DePamphilis, 2010):

- time savings during the first entry; increased market penetration rate;
- accelerated implementation of the same strategy;
- greater efficiency due to the increased share of activities, scale and experience;
- entry into more attractive segments yielding an effect of combined activities;
- implementation of various strategic moves.

The difficulties that may be encountered in carrying out the mentioned transactions are as follows: the integration of a new compound into the existing system so that it not only would not reduce its effectiveness and efficiency, but would be more efficient and have a positive impact on the entire system (Brigham & Daves, 2012; Ginevicius *et al.*, 2005; DePamphilis, 2010). One of the causes of integration difficulties is a broad spectrum of partners' targets and interests and differing merger targets. Integration into the system takes place in several stages. Integration starts with accounting for and unification of formal and technical procedures and identification of the new entity as an autonomous economic entity, followed by the integration of all available assets, products or services technology and harmonisation of the enterprise's internal culture and management.

It is difficult to single out one specific reason for acquisitions and mergers taking place on the market, though the following criteria may be referred to as the key and most common reasons (Roman & Rusu, 2011; Ulrich, 2012a, 2012b; Grajauskas, 2014): synergistic effect; diversification/focusing; growth; improvement of the market position; softening of competition; return on investment.

When merging, both enterprises expect that the synergistic effect will make it possible, by combining several businesses, to increase the scope of activities and to reduce the costs more than each of them would achieve if operating separately. Thus, it is expected that the two enterprises acting jointly create for their shareholders a greater value than they would create individually (Grant, 2003; Brigham & Daves, 2012; Ginevicius *et al.*, 2005; Lin *et al.*, 2008). The synergistic effect is usually divided into financial synergy and operating synergy.

Financial synergies are manifested through the reduction of capital costs of the purchasing enterprise or the merged enterprise and the increased borrowing capacity. The merged larger enterprise has a better access

to a variety of sources of financing, its cash flows usually stabilise, and risk is reduced.

Operating synergy manifests itself through revenue increases and cost reductions. Revenue increase is understood as the opportunity to utilise another enterprise's distribution channels, its circle of clients. Cost reduction is understood as economies of scale, i. e. better utilisation of the same resources to increase production volumes. In this case, marginal fixed costs decrease.

### **Analysis of the Market of Mergers and Acquisitions of Enterprises and its Trends in the Baltic States and European Countries**

Based on data of the Association of Financial Analysts (Finansu ir teises patareju lyga, 2016), activities on the market of merger and acquisition (M&A) transactions in Lithuania are promoted by: privatisation of state-owned companies; international development of foreign companies through the acquisition of Lithuanian enterprises; Lithuanian enterprises' strategic initiative to take over competitors, to consolidate the market or to expand the business profile and geography; activities of financial investors, such as industrial and financial groups and private capital funds, in seeking the takeover, conversion or sale of the acquired enterprises.

In 2014, the Lithuanian market of mergers and acquisitions was characterised by a large number of successfully completed merger and acquisition transactions. According to data of the Association of Financial Analysts (M&A sandoriai, 2015), as many as 118 merger and acquisition transactions were successfully completed in Lithuania in 2014, which is by 50 per cent more than in 2013, when 78 merger and acquisition transactions were successfully completed in Lithuania. Since the introduction of the euro in Lithuania on 1 January 2015, the number of acquisitions has increased, just as it happened in Latvia and Estonia, and 69 such transactions have already been carried out (M&A sandoriai, 2015). In light of the recovery of Lithuania's economy and with a view to promoting mergers and acquisitions in the market, conferences and events are annually organised on this topic. The events and conferences are organised by the largest law firms (Apie finansu analitiku asociacija, 2016; Finansu ir teises patareju lyga, 2016) (Table 9).

Table 9

#### **Baltic Law Firms Participating in M&A Transactions in the Baltic States (2001–2014)**

Position	Law firms	Value, million EUR	Number of transactions, units
1	SORAINEN	4546.00	100
2	Raidla Lejins & Norcous	3266.00	84
3	LAWIN	1996.00	89
5	Tark Grunte Sutkiene	1433.00	24
19	Motieka & Audzevicius	161.00	5
73	Matuizaitė & Partners	0	1
76	Tark & Co	0	1
78	Varul Vilgerts Smaliukas	0	1

Source: Apie finansu analitiku asociacija, 2016; Finansu ir teises patareju lyga, 2016

According to the analysis of transactions carried out in 2014, significantly more transactions took place than before, as in 2013 and 2011 the number of transactions was similar (Figure 3). In 2011, recovery of the economy was observed, and most transactions were completed in the first and third quarters of the year.

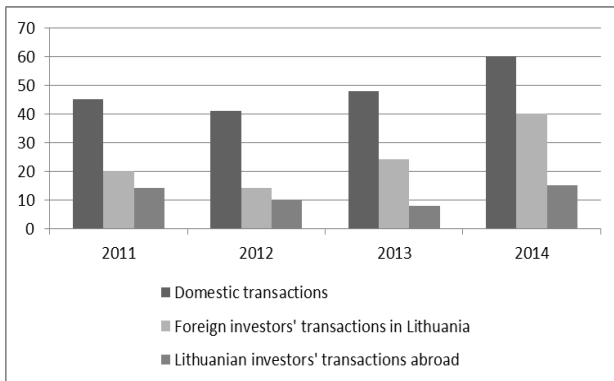


**Figure 3.** Number of Successfully Completed Merger and Acquisition Transactions in Lithuania (in units)

Source: *M&A sandoriai, 2015*

The analysis of the market of mergers and acquisitions shows that in 2014, the most popular sectors in which merger and acquisition transactions took place were the Internet, e-commerce, energy, real estate and finance sectors. In 2014, 22 merger and acquisition transactions were successfully completed in these sectors, with as many as 15 transactions having a foreign company as one of the parties to a transaction (M&A sandoriai, 2015). In 2014, high-value transactions prevailed in the finance and energy sectors. In 2013, transactions took place most actively in the Internet and e-commerce sectors, less actively – in the energy, manufacturing and services sectors.

In 2012, 10 acquisition transactions were successfully completed by Lithuanian investors abroad. Lithuanian companies showed the greatest interest abroad in retail and wholesale chains, food and pharmaceutical industry companies. In 2011, foreign investors' interest in Lithuanian enterprises was considerable and they completed 21 acquisition transactions. In 2011, Lithuanian companies expanded their activities to the neighbouring countries, such as other Baltic States, Scandinavia, Russia, Poland, Ukraine or Armenia. The main reason for such activity is the aspiration of Lithuanian enterprises to diversify the investment portfolios held by them and/or to invest in other promising and profitable markets.

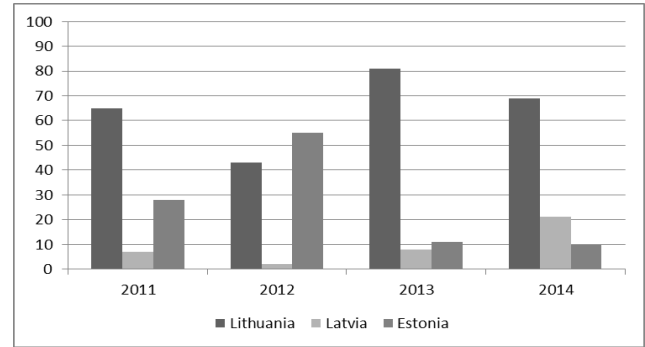


**Figure 4.** Number of Merger and Acquisition Transactions by Type (in units).

Source: *M&A sandoriai, 2015*

Figure 4 presents distribution of transactions by type (M&A sandoriai, 2015).

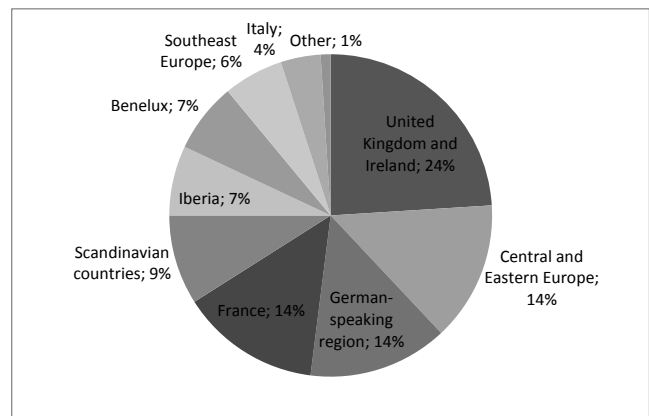
Figure 4 shows that during the period 2011–2014, domestic transactions prevailed in the total number of transactions and usually accounted for half of all transactions, followed by foreign investors' transactions in Lithuania and finally Lithuanian investors' transactions abroad, which made up the smallest share of all the transactions.



**Figure 5.** Distribution of the Merger and Acquisition Market in the Baltic States, in Per Cent.

Source: *M&A sandoriai, 2015; Statistics and facts on the European Union (EU), 2016*

As regards the market of mergers and acquisitions in the Baltic States, it can be claimed that among the three countries (Lithuania, Latvia and Estonia) the clear leader is Lithuania (Figure 5) (M&A sandoriai, 2015; Statistics and facts on the European Union (EU), 2016). Comparing the share of the Baltic States on the market of these transactions since 2011, Lithuania holds over 60 per cent, while in 2012 the market leader among the Baltic States was Estonia. Thus, the most rapid economic recovery is observed in Lithuania. Latvia accounts for the smallest share of the market of these transactions.



**Figure 6.** Distribution of Merger and Acquisition Transactions in European Countries, in Per Cent.

Source: *Statistics and facts on the European Union, 2016*

The analysis of the market of mergers and acquisitions in the Baltic States in 2014 as a whole shows that the majority of transactions were carried out in the services, finance, energy, transport, industry and information technology sectors, while the least attention was given to the medicine/pharmacy and leisure sectors.



Based on data of the Statistics and facts on the European Union (EU) (2016), the most popular sectors in European countries are agriculture, finance, leisure, real estate and industry, quite unlike sectors in the Baltic States or in Lithuania. In 2014, the merger and acquisition market in European countries and regions was distributed as follows (Figure 6): the United Kingdom and Ireland (24 per cent), Central and Eastern Europe (14 per cent), the German-speaking region (14 per cent), France (14 per cent), Scandinavian countries (9 per cent), Iberia (7 per cent), Benelux (7 per cent), Southeast Europe (6 per cent), Italy (4 per cent) and other (1 per cent) (Statistics and facts on the European Union (EU), 2016) (Figure 5), i. e. the major players in this market were the United Kingdom and Ireland. The market was evenly distributed between Central and Eastern Europe, countries of the German-speaking region and France. In 2014, the smallest number of transactions was carried out in Italy and countries of Southeast Europe.

Since the beginning of 2013, with economic expectations growing, activities on the market of mergers and acquisitions have also started to intensify. The improved performance indicators of Baltic enterprises (profitability, solvency, operational efficiency) are leading to a gradual increase in the number of transactions. The interest of foreign investors in the Baltic markets has also significantly grown, although domestic businesses still account for the majority of buyers. As business is recovering after the crisis and the number of start-ups is growing, they are facing challenges in the area of business and are looking for solutions in domestic and international markets. In times of globalisation and the free movement of capital, restructuring of enterprises, namely, mergers and acquisitions, is becoming one of the solutions. The expected improvement in the economic situation should have a positive effect on business confidence, prospects for development and funding opportunities.

## Conclusions

The analysis of the situation in the area of bankruptcies and restructuring of enterprises in Lithuania during the post-crisis period allows for the conclusion that the application of restructuring measures has become a usual process assisting enterprises in solving problems. Thus, mergers and acquisitions, as one way of restructuring, are becoming increasingly frequent. The majority of enterprises merge in order to expand their activities and to diversify the risks associated with such activities. Smaller enterprises, which are incapable of competing in the international market, are forced to bring themselves under the protection of large international enterprises. The main reasons for business mergers are economic growth, diversification, tax benefits, profile and economies of scale.

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The discussed statistics of enterprise bankruptcies in Lithuania show that during the period from 1993 until 31 December 2015, bankruptcy was declared in respect of 18207 enterprises and 16 banks, of which 13952 enterprises (76.6 per cent) and 14 banks (87.5 per cent) completed bankruptcy proceedings. The analysis of enterprise restructuring proceedings shows that since 2001, restructuring proceedings have been initiated in respect of 393 enterprises, of which 21 enterprises successfully completed restructuring.

Multiply regression analysis of the relationship of GDP growth and bankruptcy initiations in Lithuania for the period of 1995–2015 revealed positive correlation of these two phenomena. Particularly strong this relationship was in 1995–2009 with some reverse tendencies in 2010–2015. Short term tendencies are attributable to changes in law, international trade conflicts, etc.

Generalised research findings point out to the increasing number of profitable enterprises, while the ration of profit- to loss-making enterprises and their share in the total number of registered enterprises bear witness to the improving business situation in Lithuania.

It is observed that business mergers and acquisitions are attributed to a variety of reasons, both economic and personal, however the following could be referred to as the main reasons: creation of business value; change of the field of activity; withdrawal from business; recovery of investment; the personal interest of executives (the aspect of an enterprise's internal policy); environmental factors; fierce competition in the market; characteristics of the enterprise.

The discussed statistics of merger and acquisition transactions in Lithuania during the period 2011–2014 point out that in 2014, the Lithuanian market of mergers and acquisitions was characterised by a large number of successfully completed merger and acquisition transactions. In 2014, the Internet, e-commerce, energy, finance, and real estate sectors abounded in successfully completed transactions, while high-value transactions prevailed in the finance and energy sectors. The data of the analysis show that since the beginning of 2013, the market of mergers and acquisitions has started to show signs of recovery.

In times of globalisation and the free movement of capital, the issues of mergers and acquisitions of enterprises are becoming increasingly topical due to emerging opportunities of seeking alliance or acquisition in international markets, to capture new technological opportunities, to enhance an enterprise's trademark, to achieve a variety of synergistic effects, economies of scale and management, improved allocation of resources and market power gains and to attain a number of other goals.

Multiply correlation and multiply regression analysis has revealed synchronization of restructurings, bankruptcies, mergers and acquisitions with the business cycle and strong influence of imperfect competition and institutional factors depending on the features of analysed industries.

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