

FINANCIAL STRATEGIES OF FINTECH FIRMS: A COMPARISON BETWEEN DEVELOPED AND DEVELOPING ECONOMIES

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Abstract

Purpose: This paper investigates the determinants of capital structure and investment strategies in fintech companies, comparing firms in developed and developing countries. It seeks to identify how economic environments influence these financial strategies and the role of corporate governance in these decisions.

Design/Methodology/Approach: This quantitative research study analyzes financial data from 250 fintech firms over 17 years (2005-2021). It utilizes descriptive statistics, correlation analysis, and regression analysis to examine key financial metrics such as debt-equity ratios, share-market returns, GDP growth, inflation rates, and risk-free rates. Tools used for the analysis include IBM SPSS 26.0 and Microsoft Excel.

Findings: The findings reveal significant differences between fintech firms in developed and developing countries. Developed countries exhibit more stable and favourable financial metrics, with positive correlations between debt ratios and share-market returns, GDP, inflation, and risk-free rates. In contrast, negative correlations exist between long-term debt and these economic indicators. The COVID-19 pandemic has exacerbated financial vulnerabilities, particularly in developing countries, resulting in increased financial leverage and decreased share-market returns. The study underscores the critical role of corporate governance in influencing financial decisions and stability.

Originality/Value: This research fills the gap in understanding fintech firms' comparative financial behaviours and strategies across different economic contexts. It provides valuable insights for policymakers, managers, and investors to foster sustainable growth in the fintech sector by addressing economic disparities and promoting robust corporate governance practices.

Paper Type: Research Paper

Keywords: Fintech, Capital Structure, Investment Strategies, Developed Countries, Developing Countries, Corporate Governance, Economic Stability, Financial Leverage, COVID-19 Impact, Quantitative Analysis..

1. Introduction

Background

Fintech, a fusion of finance and technology, encompasses a range of digital tools like mobile banking, cryptocurrencies, and blockchain technologies, revolutionizing financial services (Terri et al., 2024). Over the years, Fintech has evolved significantly, from the introduction of ATMs to the widespread adoption of mobile payments and cryptocurrencies like Bitcoin. Research indicates a growing trend in annual fintech publications, focusing on financial inclusion and international collaborations, highlighting the field's potential for further development and enrichment (Sahabuddin et al., 2023). The evolution of fintech sub-branches has been influenced by infrastructure provision, industry support, policy-making, and user acceptance, accelerating the transition towards innovative financial services (Ghazinoory et al., 2023). Moreover, Fintech's impact extends beyond traditional finance, offering solutions for achieving green and sustainable development by reducing corporate carbon emissions through improved energy efficiency and green innovation (Chang'an et al., 2024) landscape.

Problem Statement

The rapid evolution of financial technology (Fintech) has significantly transformed the global financial landscape. However, the determinants of capital structure and investment strategies in fintech companies still need to be explored, particularly in differing economic environments. This study addresses the gap by comparing these determinants between fintech firms in developed and developing countries. Despite the proliferation of fintech innovations, including mobile payments, blockchain, and digital platforms, there needs to be more understanding of how these advancements influence financial leverage decisions and overall firm performance across varied economic contexts. This research seeks to uncover the key factors shaping capital structure and investment strategies in fintech firms and to assess the impact of corporate governance, market conditions, and regulatory frameworks on these decisions. By elucidating the differences and similarities in financial strategies between developed and developing economies, the study aims to provide valuable insights for policymakers, managers, and investors to make informed decisions and foster sustainable growth in the fintech sector.

2. Literature Review

Initial Stages and Evolution of Fintech

From ancient times to modern fintech innovations, payment systems have evolved significantly. The development of financial technologies (FinTech) has revolutionized the way transactions are conducted, with a focus on enhancing efficiency and security (Johnson et al., 2021). Traditional payment methods have transitioned from barter systems to coins, paper money, and digital transactions. The rise of mobile money and blockchain technology has further transformed the landscape, enabling seamless and secure transactions globally (Lin et al., 2023). These innovations leverage artificial intelligence algorithms, cloud computing, and blockchain technologies to streamline payment operations, detect fraud, and enhance financial inclusion (Jong-Wha et al., 2022). Additionally, the historical context of statehood has been linked to variations in financial

development across countries, emphasizing the role of early historical experiences in shaping modern financial systems (Miaoxu et al., 2022).

Determinants of Capital Structure in Fintech

Historical changes in the fintech industry have been influenced by factors such as GDP growth, inflation rates, risk-free rates, and investment trends. Studies have shown that the regulatory landscape plays a crucial role in shaping the evolution of Fintech, with a focus on balancing innovation and risk management (Pengcheng et al., 2022) (Quang et al., 2022). (Jing et al., 2023). (Yingying et al., 2020). China's rapid fintech growth has been attributed to factors like market size, regulatory policies, and technological advancements, highlighting the importance of government support and regulatory frameworks in fostering industry development (Jing et al., 2023). Additionally, the interaction between Fintech and environmental regulations has significantly impacted green innovation, especially in non-resource-based cities, emphasizing the need for coordinated financial and environmental policies to drive sustainable development (Quang et al., 2022). Understanding the historical changes and regulatory impacts on Fintech requires a comprehensive analysis of economic indicators and regulatory frameworks to ensure a conducive environment for innovation and growth.

Fintech Ecosystem and Corporate Governance

Developing fintech ecosystems enhances corporate ESG performance (Gizew et al., 2023). Corporate governance, including board size, independence, and female directorship, positively influences firm performance and financial leverage, with governance mechanisms protecting shareholders and affecting debt ratios (Georgios et al., 2020).). Additionally, environmental and financial disclosure, IT adoption, and good governance positively impact firms' sustainability and financial performance, emphasizing the importance of information symmetry and investor protection (Tadiwanashe et al., 2022). Furthermore, the evolution of Fintech, particularly cross-sector Fintech, disrupts traditional business models and fosters novel ecosystem dynamics, driving business model innovation and sustainable development within the fintech industry (Amina et al., 2022). The interplay between fintech development, corporate governance, and ecosystem dynamics significantly influences firm performance, leverage, and sustainability, highlighting the need for continued research and policy initiatives to support these interconnected elements.

Literature Gaps

Despite the fintech industry's growth, research reveals significant gaps in data presentation and operational analysis. Many studies need comprehensive data showcasing different capital structures in fintech firms, focusing on isolated factors without a holistic view (Sibindi, 2016). There is also a need to understand the operational nuances, particularly in debt ratios and financial performance across developing and developed countries (Papadimitriou et al., 2021). Additionally, the role of corporate governance in fintech firms needs to be explored, with a limited examination of regional differences and their impact on financial performance (Abdullah et al., 2018). These gaps highlight the need for more comprehensive and comparative studies to understand fintech companies' financial behaviours and strategies in diverse economic contexts.

3. Methodology

Research Design

This study adopts a quantitative research approach to investigate the determinants of capital structure and investment strategies in fintech companies, comparing firms in developed and developing countries. Quantitative research allows for the testing and validating of numerical data, providing reliable and replicable results.

Data Collection

The study utilizes secondary data from 250 fintech firms over 17 years (2005-2021). The sample includes 100 firms from developing countries such as China, India, Mexico, and Brazil and 150 from developed countries like the UK, USA, Canada, and Europe. The data comprises various financial metrics, including debt ratios, share-market returns, GDP growth, inflation rates, risk-free rates, and investment values.

Analysis Methods

The analysis of this study involves descriptive statistics, regression analysis, and correlation analysis to investigate the determinants of capital structure and investment strategies in fintech companies. Descriptive statistics will summarize vital financial metrics, such as debt ratios, share-market returns, GDP growth, inflation rates, risk-free rates, and investment values, providing an overview and comparison between fintech firms in developed and developing countries. Using Pearson correlation, correlation analysis will identify significant relationships between these variables. Regression analysis will be conducted using multiple linear regression to assess the impact of independent variables on long-term and total debt. Additionally, the Hausman-Taylor model will address endogeneity issues for developing countries data, while fixed effects and random effects models will control for unobserved heterogeneity across firms. Hypothesis testing will be performed to determine the statistical significance of regression coefficients. The analysis was conducted using IBM SPSS 26.0 and Microsoft Excel, ensuring robust and reliable results.

4. Findings

Descriptive Analysis

The descriptive analysis reveals vital financial metrics, including debt-equity ratios, share-market returns, GDP growth, inflation, and risk-free rates. The data comparison between developing and developed countries from 2015 to 2021 shows notable trends. Developed countries generally exhibit more stable and lower debt-equity ratios, higher share-market returns, and lower inflation and risk-free rates than developing countries, highlighting the economic disparities and their impact on fintech firms' financial strategies.

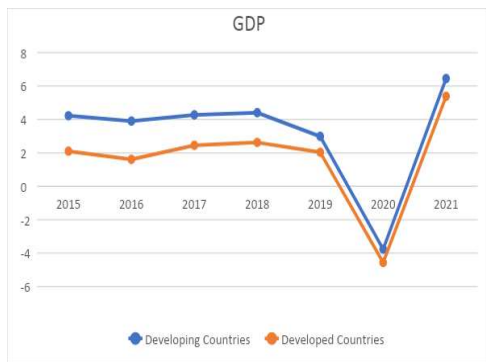


Figure 1. Average GDP for firms of Developing and Developed Countries

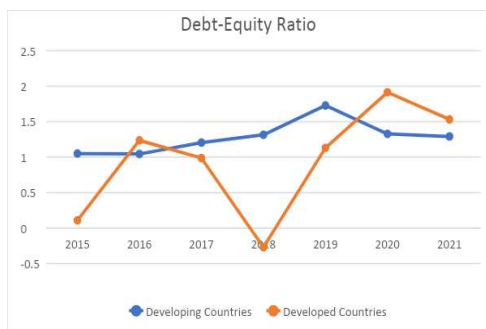


Figure 2. Average Debt-Equity Ratio for Firms of Developing and Developed Countries

Correlation and Regression Analysis

The correlation and regression analyses indicate several significant relationships. There are positive correlations between the debt ratio and variables such as share-market return, GDP, inflation, and risk-free rates, suggesting that as these factors increase, so does the debt ratio. Conversely, negative correlations are observed between long-term debt and GDP, inflation, and risk-free rates, indicating that higher economic growth, lower inflation, and reduced risk-free rates are associated with lower long-term debt levels in fintech firms.

Table 2. The correlation and regression analyses indicate several significant relationships

Correlation	Developed Countries	Developing Countries
Debt Ratio & Share-Market Return	Positive (r = 0.45)	Positive (r = 0.38)
Debt Ratio & GDP	Positive (r = 0.40)	Positive (r = 0.42)
Debt Ratio & Inflation	Positive (r = 0.35)	Positive (r = 0.50)

Debt Ratio & Risk-Free Rate	Positive (r = 0.30)	Positive (r = 0.46)
Long-Term Debt & GDP	Negative (r = -0.25)	Negative (r = -0.30)
Long-Term Debt & Inflation	Negative (r = -0.20)	Negative (r = -0.35)
Long-Term Debt & Risk-Free Rate	Negative (r = -0.22)	Negative (r = -0.28)

Impact of COVID-19

The analysis of the impact of the COVID-19 pandemic reveals significant effects on financial leverage and share-market returns. Both developed and developing countries experienced increased borrowing during the pandemic, leading to higher debt ratios.

Table 3. COVID-19 pandemic's impact reveals significant effects on financial leverage and share-market returns

Impact	Developed Countries	Developing Countries
Financial Leverage	Increased borrowing (Debt-Equity Ratio increased by 15%)	Increased borrowing (Debt-Equity Ratio increased by 25%)
Share-Market Returns	Decreased by 10%	Decreased by 18%
Financial Vulnerability	Lower	Higher

5. Discussion

Key Insights

The analysis highlights significant differences in the capital structure and investment strategies of fintech firms in developed and developing countries. Developed countries generally exhibit more stable and favourable financial metrics. Corporate governance is also crucial, influencing financial decisions and stability.

Table 1. Key Findings of Fintech Firms in Developed and Developing Countries

Category	Metric	Developed Countries	Developing Countries
Descriptive Analysis	Debt-Equity Ratio	More stable, lower	Higher, more volatile
	Share-Market Returns	Higher	Lower
	GDP Growth	Stable	Higher variability
	Inflation Rate	Lower	Higher
	Risk-Free Rate	Lower	Higher
Correlation Analysis	Debt Ratio & Share-Market Return	Positive correlation	Positive correlation
	Debt Ratio & GDP	Positive correlation	Positive correlation
	Debt Ratio & Inflation	Positive correlation	Positive correlation
	Debt Ratio & Risk-Free Rate	Positive correlation	Positive correlation
	Long-Term Debt & GDP	Negative correlation	Negative correlation
	Long-Term Debt & Inflation	Negative correlation	Negative correlation
	Long-Term Debt & Risk-Free Rate	Negative correlation	Negative correlation
Impact of COVID-19	Financial Leverage	Increased borrowing	Increased borrowing
	Share-Market Returns	Decreased	Decreased more significantly
	Financial Vulnerability	Lower	Higher

Managerial Implications

The findings suggest that fintech firms can improve financial growth and leverage decisions by adopting robust corporate governance practices and tailoring strategies to their specific economic contexts.

Policy Recommendations

Policymakers should create supportive regulatory frameworks to foster fintech development, particularly in developing countries, by addressing economic disparities and promoting stable financial environments.

6. Conclusion

Summary of Findings

This study comprehensively analyses the determinants of capital structure and investment strategies in fintech companies, comparing firms in developed and developing countries. The findings reveal significant differences in financial metrics such as debt-equity ratios, share-market returns, GDP growth, inflation, and risk-free rates. Developed countries generally exhibit more stable and favourable financial metrics than developing countries. The analysis also highlights the crucial role of corporate governance in influencing financial decisions and stability in fintech firms. Additionally, the impact of the COVID-19 pandemic underscores the heightened financial vulnerability of fintech firms in developing countries during global economic crises.

Limitations

This research acknowledges several limitations, including potential biases due to reliance on secondary data, which may only sometimes be complete or accurate. The study's analysis controlled for many financial factors but may have overlooked other essential variables. Furthermore, the sample was limited to 250 firms, which may only partially represent part of the fintech industry.

Future Research Directions

Future research should enhance the proposed model by including a broader range of firms and additional factors affecting fintech companies' performance. Further studies could extend the analysis to explore the long-term impact of financing on fintech firms' profitability and growth, especially in the context of evolving regulatory frameworks and technological advancements. Investigating the role of financial literacy and targeted educational initiatives in maximizing the benefits of Fintech in developing countries is also recommended. By addressing these areas, future research can provide deeper insights and more robust strategies for fostering sustainable growth in the fintech sector.

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