

## DETECTING OPTIMAL FINANCIAL AND CAPITAL STRUCTURE: THE CASE OF SMALL AND MEDIUM ENTERPRISES (SME) IN REPUBLIC OF CROATIA

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### ABSTRACT

One of the most frequent buzzwords nowadays in the economic science is word »optimum« or its adjective »optimal«. In most cases it includes the maximization of certain variables, but in the case of financial and capital structure it refers to the most favourable ratio of debt and capital. In order to determine the most suitable range of financial (capital) structure it must be associated with company's success. The question that arises is – how to measure success of a company? There are many ways – most common is definitely profitability. But nowadays profitability in many cases cannot be reliable indicator of company's success because there are many ways to embellish »bottom line« without substantial upturns. There is notable number of cases in which profitable companies go bankrupt. That is the reason why business continuity was used as a measure of company's success in this paper. Relation between financial (capital) structure and opening bankruptcy proceeding will be analyzed to determine which companies according to their affinities in financing are more likely to go bankrupt. Also, financial (capital) structure movement in years before bankruptcy occurred and difference between financial (capital) structure of companies which belong to manufacturing and retail and wholesale activity will be analyzed. Sample consists of small and medium enterprises which operated in Republic of Croatia. They are divided in two subsamples – first subsample includes companies which have opened bankruptcy proceeding and second subsample includes companies which haven't opened bankruptcy proceeding and continued their business activity. Financial data was gathered from Croatian Financial Agency official website and data about bankruptcy proceedings was collected from Croatian Official Gazette.

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