

The Impact Of Financial Leverage On Business Performance: A Quantitative Study In The Tourism Sector Of Croatia

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Abstract

This research analyzes the impact of financial leverage on business performance in the five largest Croatian tourism companies, which together hold more than 60% of the country's tourism capacities. Using quantitative methods, including descriptive statistics, correlation, and regression analysis, the relationship between the level of debt and indicators of business performance was examined. The results indicate a positive impact of financial leverage on business performance, suggesting that adequate management of the financial structure can contribute to improving business results. However, the work also recognizes potential risks associated with the excessive use of debt, pointing to the importance of a balanced financial strategy. Despite certain limitations, such as a limited sample and focus only on the tourism sector, the results of the research provide valuable insights for managers, investors, the scientific and academic community. The research stands out for its relevance and topicality, especially in the context of economic challenges and potential economic instabilities. The paper also emphasizes the need for further research to better understand the mechanisms through which financial leverage affects business performance, and it can serve as a foundation for future research in this important area.

Keywords: Business performance, financial leverage, financial management, tourism.

1. Introduction

Financial leverage represents a key mechanism in corporate management, allowing companies to maximize return on investment through an adequate capital structure. While its application in various sectors has been thoroughly examined, the existing literature overlooks a concrete analysis of its impact on the tourism sector, despite

its significant role in the global economy. Through this paper, our aim is to explore the relationship between financial leverage and business performance in the context of tourism companies, using quantitative methods of analysis. Specifically, we will investigate how different degrees of financial leverage affect key indicators of business performance, including profitability, return on investment, growth, and stability. The research of this

topic is important due to potential implications for strategic financial decision-making within the tourism sector. Tourism represents a dynamic industry, highly sensitive to economic changes and fluctuations, therefore understanding how financial leverage can be utilized for optimizing business performance is of great importance. Furthermore, these findings can contribute to scientific literature by providing new insights into the use of financial leverage in the specific context of the tourism sector.

This paper provides answers to important questions: Is there a significant relationship between financial leverage and business performance in the tourism sector, how does financial leverage affect key indicators of business performance, and how can tourism companies effectively use financial leverage to enhance their business performance? Considering the weight and complexity of these questions, a thorough, systematic, and objective research is sought to contribute to both the scientific community and practitioners within the tourism sector. The research includes a review of previous investigations of this problem, considering current trends. An investigation of financial indicators in the five largest Croatian tourism companies for the past year has been conducted. The obtained data was processed, and conclusions were drawn based on scientific methods. The research was conducted in two months, and the statistical processing of data was performed in two weeks. Every technical term in the questionnaire and the purpose of the research have been explained in detail. The primary goal of the paper is the study and analysis of the impact of financial leverage on business performance indicators of the largest tourism companies in Croatia.

2. Literature review

The capital structure of a company, and the relationship between debt and equity, represent one of the key areas in corporate financing. The financial leverage, or the ratio between debt and equity, is especially important because it can significantly impact the company's operational success. This literature review presents an overview of existing work on the subject, focusing on research that examines how various factors, such as macroeconomic conditions, financial constraints, and

specific characteristics of the company and industry, affect capital structure and, consequently, the success of a company's operations.

Frank & Goyal, in their work, use panel data to investigate factors influencing corporate capital structure decisions. Their findings suggest that profitability, company size, and market opportunities are among the most important factors. (Frank & Goyal, 2009)

Baker & Wurgler argue that a company's capital structure is not just a result of trade-off or pecking order theory but is also the result of attempts to time the market. (Baker & Wurgler, 2002)

Lemmon et al. investigate how decisions about a company's capital structure at the start of its life affect its later business practice. They find that initial capital structure decisions often reflect future financing decisions. Therefore, companies that opt for higher financial leverage at the beginning often continue to use high financial leverage over time. This can have implications for the long-term success of the company, indicating the importance of understanding how financial leverage can affect future success. (Lemmon et al., 2008)

Welch investigates the relationship between capital structure and stock returns. He finds that changes in the debt-to-equity ratio are associated with future stock returns, suggesting that financial leverage can have an impact on expected business performance. He also indicates that companies increase their financial leverage when their stock prices are high and decrease it when their stock prices are low. (Welch, 2004)

Lemmon & Zender, in their work, examine the debt capacity of companies and test capital structure theories. They find that a company's capital structure is often associated with its debt capacity. (Lemmon & Zender, 2010)

Dang et al. use dynamic panel threshold models in their work to investigate asymmetric adjustments of capital structure. The authors find that companies with too low a level of debt adjust their capital structure faster than companies with too high a level of debt. (Dang et al., 2012)

Graham et al. provide a long-term historical review of corporate America's capital structure. The authors find that the debt ratio in corporations has increased over time, pointing to the growing importance of financial leverage. (Graham et al., 2015)

Farre-Mensa & Ljungqvist examine measures of financial constraints and their relationship with capital structure. They suggest that many measures of financial constraints do not measure actual constraints that companies have in adjusting their capital structure. (Farre-Mensa & Ljungqvist, 2016)

Fan et al. provide an international comparison of capital structure and debt maturity choices. The authors find significant differences in capital structure and debt maturity choices between countries, indicating the importance of the institutional environment and market conditions in determining financial leverage. They also suggest that companies with more debt are more likely to choose longer maturities, potentially to mitigate risks associated with excessive financial leverage. (Fan et al., 2012)

In his works, Koraca analyzed the impact of implementing modern technologies on strategy (Koraca, 2020) and business processes (Koraca, 2021) in tourism companies, investigating the influence of technologies on financial decision-making. The author demonstrates that tourism companies are altering strategic guidelines and processes by directing them towards the change in capital structure financing to achieve better business results and operational success.

Korajczyk & Levy explore how macroeconomic conditions and financial constraints affect the choice of capital structure. The authors show that companies adjust their capital structure to changing economic conditions, suggesting that financial leverage can be a tool to mitigate the impact of economic fluctuations on business performance. (Korajczyk & Levy, 2003)

Frank & Goyal, in their work, analyze the factors consistently important in decisions about capital structure. The authors highlight profitability, company size, market value of shares, and risks as key factors influencing financial leverage. (Frank & Goyal, 2009)

De Jong et al. provide a global perspective on capital structure in their work, examining the role of specific determinants of the company and the country. The authors find that country-specific characteristics, such as investor protection, are important for capital structure, indicating the importance of understanding the context in which companies operate. (De Jong et al., 2008)

Drobetz et al. focus on capital structure decisions of globally listed maritime companies in their work. The authors suggest that companies in this sector rely on a high degree of financial leverage to finance their operations, which may have implications for their business performance. (Drobetz, et al., 2013)

Gungoraydinoglu & Öztekin investigate determinants of corporate financial leverage at the company and country level. The authors analyze data from 42 countries and conclude that capital structure varies depending on the specificities of the country and the company. They also find that companies with higher profitability and higher market-to-book values are less indebted, while companies with more tangible assets have a higher level of debt, underscoring the importance of financial leverage in shaping company success. (Gungoraydinoglu & Öztekin, 2011)

Hovakimian et al. study the choice of debt versus equity in their work. The authors find that companies prefer debt and use it as the main source of financing when faced with significant investment opportunities. This indicates that financial leverage can be a key factor in driving company growth and success. (Hovakimian et al., 2001)

Huang & Ritter, test capital structure theories and evaluate the speed of adjustment. They suggest that companies adjust their financial leverage to the target ratio, but this adjustment can be a slow process. In their work, they compare internal and external capital financing, showing that companies with higher internal financial leverage achieve better results compared to those that rely on external financing. This suggests the potential value of financial leverage in enhancing company performance. (Huang & Ritter, 2009)

Afsar Basha et al. in their paper examine the role of financial literacy in determining the leverage of small firms and using a cross-sectional sample of 73.302 firms in 22 countries, the authors find that financial literacy is negatively associated with SME leverage. (Afsar Basha et al., 2023)

Kayo & Kimura study the hierarchical determinants of capital structure. The authors point out the importance of interactions at the company, industry, and country level when deciding on capital structure, confirming the complexity of decisions on financial leverage. (Kayo & Kimura, 2011)

Hackbarth et al. explore the connection between capital structure, credit risk, and macroeconomic conditions. The authors argue that higher financial leverage is associated with higher credit risk, but companies can offset this by properly managing macroeconomic conditions, which could potentially enhance their performance. (Hackbarth et al., 2006)

Tang in his work investigates the impact of debt on a company's financial performance, specifically considering the role of "leverage ambiguity". The author suggests that there is uncertainty about how financial leverage affects a company's performance, which means that an increase in debt does not always result in better financial performance. (Tang, 2019)

The literature on the role of financial leverage in determining a company's business performance covers a broad range of research, including the analysis of factors at the company, industry, and country level, as well as studying how companies adapt to changing economic conditions. While there is a consistent array of evidence suggesting that financial leverage can have a significant impact on business performance, there is also complexity in how this relationship works. Given this complexity, further research is needed to better understand how companies can most effectively manage their financial leverage.

3. Methodology

The research methodology includes the selection of the topic and identification of research problems, analysis of previous research on the topic and the formulation of research needs, defining research objectives, forming hypotheses, and choosing research methods, studying the literature, selecting relevant sources, and examining the research process. Through general and specific scientific research methodologies, research was conducted, research results were established, generalized conclusions were drawn, scientific and practical contributions of the work were determined, and the text of the work was written. This study uses a quantitative approach to analyze the relationship between financial leverage and business performance. The research design is cross-sectional, with data collected from the five

largest Croatian tourist companies. The sample for this study consists of companies in the tourism sector that are listed on the stock exchange and have transparently published their financial statements. Data were collected from secondary sources, including company financial reports, exchange data, and other relevant reports. Data were analyzed using statistical methods, including descriptive statistics, correlation analysis, and regression analysis. Descriptive statistics are used to show basic sample characteristics, while correlation analysis is used to examine the relationship between financial leverage and business performance. Regression analysis is used to determine the impact of financial leverage on business performance, controlling for other relevant variables.

The hypothesis of this study is tested through correlation and regression analysis. A model was made that includes independent variables (financial leverage), dependent variable (business performance). The statistical significance of the coefficients was assessed based on p-values, and the size of the impact was assessed based on beta coefficients. The study is conducted in accordance with ethical guidelines for business research. All data used in the research are publicly available and do not include personal data. Also, during the analysis and interpretation of data, the researchers committed themselves to objectivity and transparency. The methodology of this research provides a robust framework for analyzing the impact of financial leverage on business performance in the tourism sector. By combining quantitative methods and a rigorous approach to data collection and analysis, this study provides important insights into this key topic. Despite its limitations, the results of this study have the potential to inform managers, investors, policy-makers, and other interested parties about the importance and impact of financial leverage on business performance. The basic aim of the work was set in line with the aim of the research. Tasks leading to the achievement of the goal include theoretical elements needed for conducting research, the research itself, the analysis of obtained results, and drawing conclusions. All set tasks are feasible. The hypothesis of the work is: Financial leverage increases the business performance of tourism companies.

4. Examining the impact of financial leverage on business operations

To examine the impact of financial leverage on business operations, financial data from the five largest tourist companies in Croatia for the past year were taken. Although this number seems small, these five companies together hold more than 60% of the total tourist capacities, and conclusions generalized from their data can be considered representative for drawing conclusions about the entire sector. In his book, Davidson III explains and elaborates the financial indicators and its formulas, mentioned in this study. (Davidson III, 2020)

The indicators used in the work are the following:

1. Revenue: The income generated from normal business operations and includes discounts and deductions for returned merchandise. It is the top line or gross income figure from which costs are subtracted to determine net income.
2. EBIT (Earnings Before Interest and Taxes): A measure of a company's profitability that excludes interest and income tax expenses. It presents the earnings of an organization before the deductions of interest and tax expenses.
3. Total Assets: The sum of all assets, including cash, accounts receivable, property, equipment, inventory, and any other items of economic value owned by the company.
4. EBT (Earnings Before Taxes): The money retained by the company before deducting the money to be paid for taxes. EBT includes all incomes and expenses and is often referred to as net income before taxes.
5. Interest: The cost of borrowing money. It is the payment made to the lender for the use of funds, usually expressed as an annual percentage rate.
6. Tax: A compulsory financial charge or some other type of levy imposed on a taxpayer by a governmental organization in order to fund government spending and various public expenditures.
7. Net Profit: The actual profit after working expenses not included in the calculation of gross profit have been paid.
8. Equity: The amount of money that would be returned to a company's shareholders if the assets were liquidated and the company's debt was paid off.
9. Liabilities: The company's debts or obligations that arise during its business operations.
10. ROA (Return on Assets): An indicator of how profitable a company is relative to its total assets. It gives an idea as to how efficient management is at using its assets to generate earnings.
11. ROE (Return on Equity): A measure of financial performance calculated by dividing net income by shareholders' equity. It measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.
12. FL (Financial Leverage): The use of borrowed money (debt) to finance the purchase of assets with the expectation that the income or capital gain from the new asset will exceed the cost of borrowing.
13. EBIT/ROE (Earnings Before Interest and Taxes/Return on Equity): This ratio measures a company's profitability and the efficiency with which it generates profits from shareholders' equity.
14. Cost of Debt: The effective rate that a company pays on its current debt. It includes the interest cost and other expenses involved.
15. ROIC (Return on Invested Capital): A calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments.
16. EFL (Equity Financial Leverage): It's a measure of the financial leverage of a company, and it shows how much the company relies on equity to finance its assets. This ratio is a variant of the traditional financial leverage ratio, and it compares equity, as opposed to total assets, to liabilities in the leverage calculation.

To examine the influence of financial leverage, indicators of a company's asset profitability were used. The profitability of equity which relates net profit and equity and shows how effectively the company's own capital has been used. Asset profitability relates gross profit and total assets and indicates how much profit a company earns per unit of invested assets. Asset profitability can be measured as the ratio of net profit and interest to total assets and the company's net profit. These parameters are correlated with EFL to calculate the effect of financial leverage. Calculations of profitability indicators are shown below:

$$ROA = EBIT / \text{Total assets}$$

$$RIN = \text{Net profit} + \text{Interests} / \text{Liabilities}$$

$$ROE (\text{leveraged}) = \text{Net profit} / \text{Equity}$$

An approach that is often used is to depict ROE as a product of three factors: net income margin, asset turnover, and financial leverage multiplier. This method is called the DuPont analysis:

$$ROE (\text{unleveraged}) = \text{Net Income Margin} \times \text{Asset Turnover} \times \text{Financial Leverage Multiplier}$$

Where:

$$\text{Net Income Margin} = \text{Net Income} / \text{Revenue}$$

$$\text{Asset Turnover} = \text{Revenue} / \text{Total Assets}$$

$$\text{Financial Leverage Multiplier} = \text{Total Assets} / \text{Equity}$$

With the help of DuPont analysis, we can eliminate the impact of financial leverage on ROE by excluding the financial leverage multiplier from the calculation.

Table 1. Financial indicators of the examined companies.

Year 2022 in HRK	Valamar	Plava Laguna	Maistra	Arena Hospitality Group	Liburnija Hoteli
Revenue	2.501.173.072	1.761.370.900	1.585.039.000	828.462.051	384.054.523
EBIT	261.380.747	623.953.058	389.433.000	92.030.102	-5.323.875
Total assets	6.419.804.583	3.926.253.955	3.775.772.000	3.575.525.846	978.144.437
EBT	201.871.429	610.991.261	350.317.000	60.831.144	-14.888.826
Interest	59.509.318	12.961.797	39.116.000	31.198.958	9.564.951
Tax	41.480.244	111.013.690	60.727.000	24.593.876	-10.719.822
Net profit	160.391.185	499.977.571	289.590.000	36.237.268	-4.169.004
Equity	1.672.021.210	1.444.530.057	1.277.986.000	102.574.420	696.074.300
Liabilities	2.842.286.255	1.202.486.852	1.425.984.000	1.907.261.341	444.309.683
ROA	4,07%	15,89%	10,31%	2,57%	-0,54%
ROE (leveraged)	9,59%	34,61%	22,66%	35,33%	-0,60%
ROE (unleveraged)	2,50%	12,73%	7,67%	1,01%	-0,43%
FL	1,70	0,83	1,12	18,59	0,64
EBIT/ROE	2.724.801.571	1.802.718.759	1.718.601.892	260.503.478	888.896.380
Cost of debt	2,09%	1,08%	2,74%	1,64%	2,15%
RIN	3,43%	13,06%	8,71%	1,89%	0,55%
EFL	0,032	0,170	0,103	0,002	0,042

Source: Own research

Equity profitability depends on the profitability of total assets and the intensity of leverage use. The higher the asset profitability, the higher the equity profitability will be. If the use of financial leverage (FL) is opportune, equity profitability will be higher than it would be without the use of leverage, the more intensely leverage is used, and vice versa. Of course, if the use of leverage was not opportune, equity profitability will be lower the more intense the use of financial leverage was. The effect of financial leverage is calculated using the formula:

$$EFL = (RIN - \text{Cost of debt}) \times FL$$

Where:

$$\begin{aligned} \text{Cost of debt} &= \text{Interests} / \text{Liabilities} \\ FL &= \text{Liabilities} / \text{Equity} \end{aligned}$$

5. Analysis of the impact of financial leverage on business performance

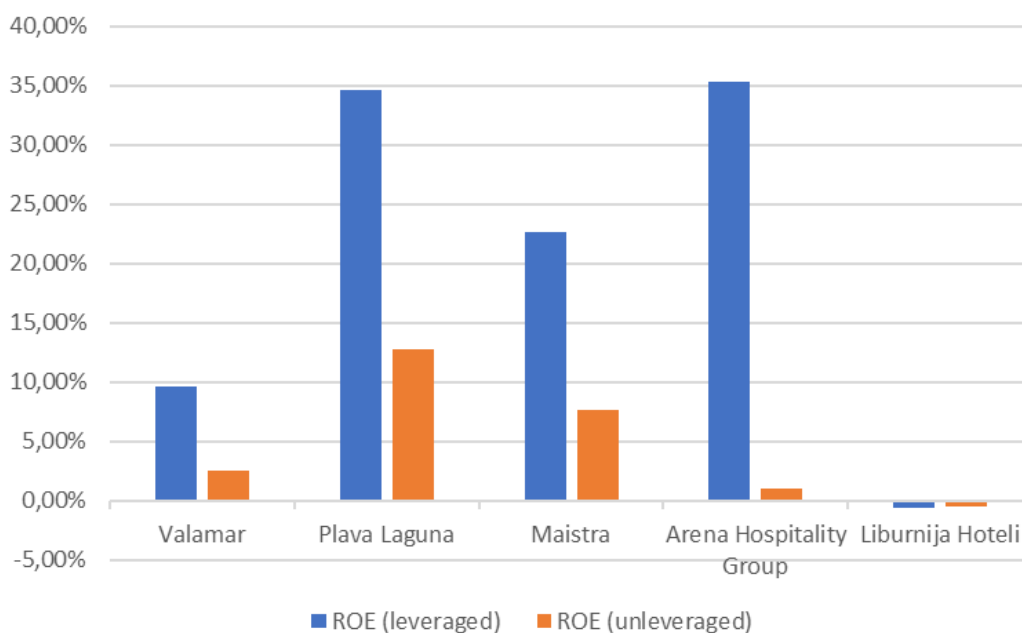
Based on the calculated indicators of profitability and financial leverage, the influence of financial leverage on the business performance of the companies Valamar, Plava Laguna, Maistra, Arena Hospitality Group, and Liburnija Hoteli, for the year 2022, was analyzed.

ROA indicator, which measures the profitability of total assets, varied significantly among the companies. Valamar showed a ROA of 4,07%, Plava Laguna had an impressive 15,89%, Maistra showed a value of 10,31%, Arena Hospitality Group had a low 2,57%, while Liburnija Hoteli showed a negative ROA of - 0,54%, indicating a loss. As for the ROE, leveraged and unleveraged values were calculated. Here, Arena Hospitality Group stood out with the highest leveraged ROE of 35,33%. On the other hand, Plava Laguna had the highest unleveraged ROE of 12,73%, indicating an efficient use of the company's capital. In the context of FL, Arena Hospitality Group had a distinctly high ratio of 18,59 compared to the others, indicating a high level of debt relative to equity. However, it's important to note that financial leverage can amplify returns,

as reflected in Arena's high leveraged ROE, but also increase financial risk. Other companies maintained relatively lower levels of financial leverage, with ratios ranging from 0,64 (Liburnija Hoteli) to 1,70 (Valamar). The cost of debt was relatively low for all companies, ranging from 1,08% (Plava Laguna) to 2,74% (Maistra). This low cost of debt suggests favorable borrowing conditions, which, if used correctly, can increase the return on equity through financial leverage. Finally, EFL was calculated, showing varying degrees of influence on company profitability. Among the five companies, Plava Laguna showed the most significant leverage effect (0,170), followed by Maistra (0,103), and Valamar (0,032). The smallest leverage effect was shown by Arena Hospitality Group (0,002), which may be related to their high level of debt and relatively low asset profitability. On the other hand, Liburnija Hoteli, despite a negative ROA, showed a moderate leverage effect (0,042), indicating that despite losses, they were able to leverage debt to increase the return on capital.

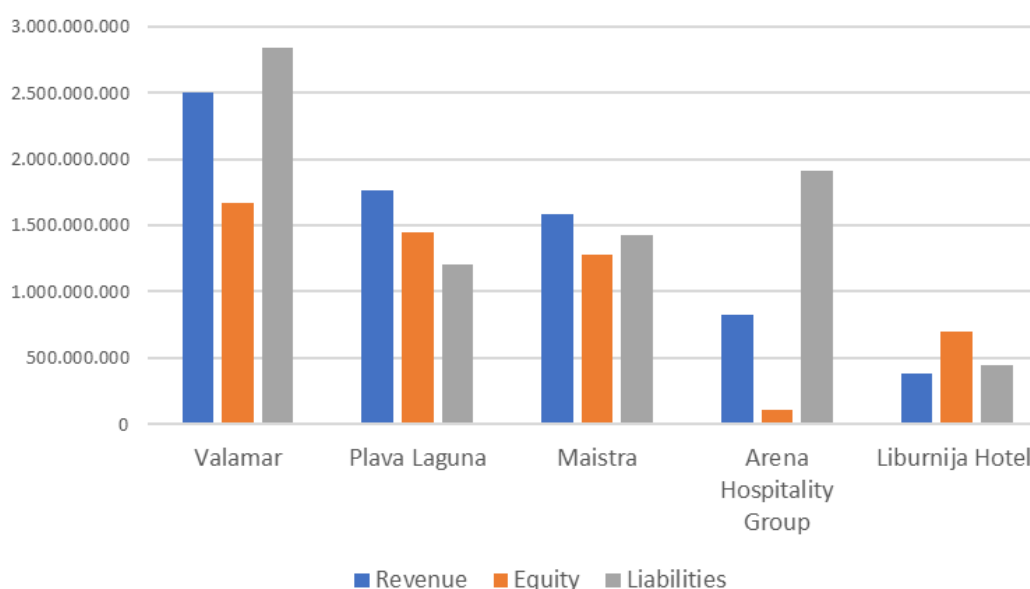
These results show that the influence of financial leverage on business performance varies among companies. While financial leverage has allowed some companies to enhance the return on equity, for other companies, financial leverage has not been equally beneficial, possibly due to lower asset profitability or higher debt levels. By analyzing the EBIT/ROE ratios, companies that had higher profitability (such as Plava Laguna and Maistra) showed a higher EBIT/ROE ratio, indicating more effective use of debt. On the other hand, companies with lower ratios (such as Arena Hospitality Group and Liburnija Hoteli) may have a higher risk associated with high levels of debt. The results suggest that good use of financial leverage can be considered a key tool for improving business performance. However, it is important to consider the risks associated with excessive use of debt. For this reason, companies should carefully manage their financial structure to achieve an optimal balance between debt and equity.

The following graphic representation shows the relationship between leveraged and unleveraged ROE, to graphically display the difference in the indicator conditioned by the impact of using or not using financial leverage.

Figure 1. Relationship of leveraged and unleveraged ROE.

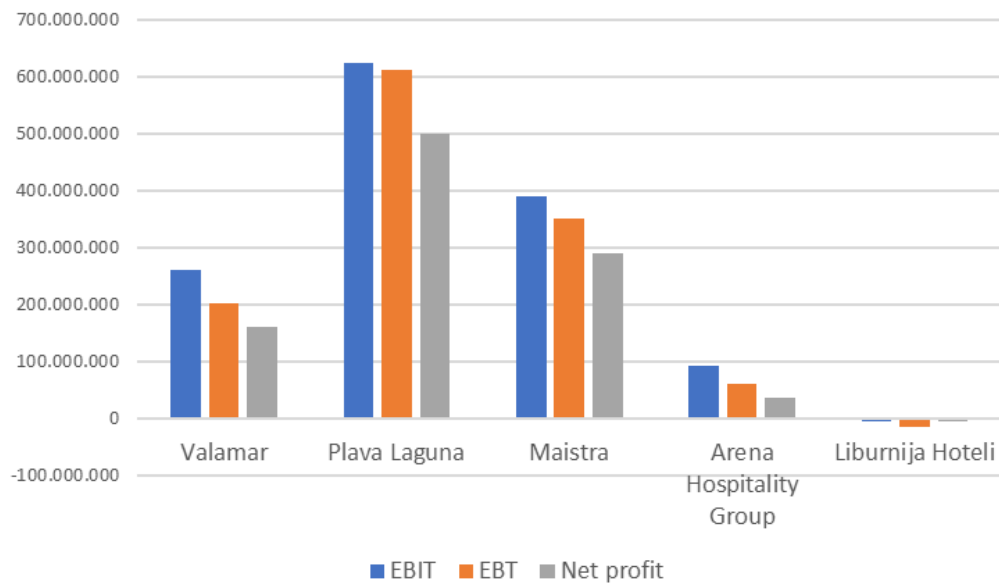
Source: Own research

The following graph displays indicators that are aimed at showing the company's revenue, equity, and debt.

Figure 2. Relationship of Revenue, Equity, and Liabilities.

Source: Own research

In the following graph, the relationship of EBIT, EBT and Net profit of the examined companies is shown, displaying indicators that show the companies' profits.

Figure 3. Relationship of EBIT, EBT, and Net profit.

Source: Own research

Correlation analysis provides measures of linear relationships between pairs of variables. In the context of this data, correlation coefficients

represent the strength and direction of linear relationships between pairs of financial performance indicators.

Table 2. Correlation analysis of key indicators

	ROE (leveraged)	ROE (unleveraged)	ROA	EBIT/ROE	EFL	Net profit	RIN
ROE (leveraged)	1	0,577544	0,621755	-0,238636	0,351344	0,522750	0,569567
ROE (unleveraged)	0,577544	1	0,996595	0,395487	0,947583	0,990918	0,999302
ROA	0,621755	0,996595	1	0,397684	0,918760	0,987771	0,996818
EBIT/ROE	-0,238636	0,395487	0,397684	1	0,365956	0,504212	0,404178
EFL	0,351344	0,947583	0,918760	0,365956	1	0,934515	0,946104
Net profit	0,522750	0,990918	0,987771	0,504212	0,934515	1	0,989464
RIN	0,569567	0,999302	0,996818	0,404178	0,946104	0,989464	1

Source: Own research

Based on the supplied correlation coefficients, we can see that ROE (leveraged) is relatively highly correlated with all indicators except EBIT/ROE, with the highest correlation with ROA (0,62). ROE (unleveraged) has an extremely high correlation with all indicators except EBIT/ROE. The highest correlation is with RIN (0,999). ROA has a high

correlation with all indicators except EBIT/ROE. The highest correlation is with ROE (unleveraged) and RIN. EBIT/ROE is weakly correlated with the other indicators, except for net income. EFL has a high correlation with ROE (unleveraged), ROA, and net income. Net profit has a high correlation with most indicators, except for EBIT/ROE. The highest

correlation is with RIN. RIN has an extremely high correlation with all indicators except EBIT/ROE. The highest correlation is with ROE (unleveraged). EFL is highly correlated with other business performance indicators, including ROE (regardless of whether it is leveraged or not), ROA, Net profit and RIN. This suggests that companies that efficiently use financial leverage tend to perform better in terms of these indicators.

The high correlation between EFL and ROE (unleveraged) is particularly interesting, suggesting that companies that efficiently use financial leverage can achieve high returns on equity, even without additional leverage. Similarly, the high correlation between EFL and Net profit suggests that efficient use of financial leverage can result in higher net profits. Although EBIT/ROE showed a negative correlation with ROE (leveraged) (-0,24), there was still a moderate positive correlation with the other indicators. EFL showed a strong

correlation with ROE (unleveraged) (0,95), ROA (0,92), and Net profit (0,93). Net profit showed an extremely high correlation with ROE (unleveraged) (0,99), ROA (0,99), and RIN (0,99). RIN showed an extremely high correlation with ROE (unleveraged) (0,999), ROA (0,997), and Net profit (0,989). Overall, the results suggest that efficient use of financial leverage can positively impact business performance.

Analyzing these correlation coefficients, one can conclude that there is a strong relationship between profitability indicators and financial leverage, indicating that financial leverage may have a significant impact on business performance. It is important to stress that high correlation does not necessarily imply a cause – effect relationship. However, while these results are indicative, regression analysis should be performed to confirm causality.

Table 3. Regression analysis of EFL impact on business performance variables

Variable	Coefficient	Standard error	t-value	P-value	R-squared
Net Profit	2,86E+13	6,29E+12	45,477	0,0199	0,873
EBIT	3,32E+13	9,63E+12	34,433	0,0411	0,798
ROA	0,9037	0,2242	40,306	0,0275	0,844
ROE (leveraged)	0,8244	12,683	0,6500	0,5620	0,123
RIN	0,7384	0,1459	50,599	0,0149	0,895

Source: Own research

The results of the regression analysis show the following coefficients:

1. Net Profit: The coefficient is 2,86E+13 with a corresponding P-value of 0,0199. The R-squared value is 0,873.
2. EBIT: The coefficient is 3,32E+13 with a corresponding P-value of 0,0411. The R-squared value is 0,798.
3. ROA: The coefficient is 0,9037 with a corresponding P-value of 0,0275. The R-squared value is 0,844.
4. ROE Leveraged: The coefficient is 0,8244 with a corresponding P-value of 0,562. The R-squared value is 0,123.

5. RIN: The coefficient is 0,7384 with a corresponding P-value of 0,0149. The R-squared value is 0,895.

The coefficient for EFL is positive in all cases, which means that an increase in financial leverage has a positive impact on all the variables examined (Net Profit, EBIT, ROA, and RIN). Also, the corresponding P-values suggest that the coefficients are statistically significant for the variables Net Profit, EBIT, and RIN. This indicates that an increase in financial leverage leads to higher net profit, higher EBIT, higher ROA, and higher RIN. These results support the positive impact of financial leverage on business performance. It's important to note that the variables Net Profit, EBIT, ROA, and RIN

also have high R-squared values, which means that a large portion of the variability of these variables can be explained by changes in financial leverage. However, it's worth mentioning that the variable ROE Leveraged did not show a statistically significant impact of financial leverage on return on equity given the high P-value.

The results of the regression analysis indicate a positive impact of financial leverage on business performance, as manifested through an increase in net profit, EBIT, ROA, and RIN. This suggests that the use of financial leverage can contribute to improving a company's financial results. Ultimately, based on these results it can be concluded that there is a positive relationship between financial leverage and business performance, but further research and analysis are needed to confirm these results and better understand how financial leverage affects a company's financial performance.

6. Conclusion

This study has presented a detailed analysis of the impact of financial leverage on the business performance of tourism companies in Croatia. Through the application of methodology, including correlation and regression analysis, this research has provided important insights into the complex interactions between financial structure and business performance. The research results indicate the existence of a statistically significant correlation between financial leverage and business performance. The confirmed hypothesis suggests that financial leverage can contribute to improving the business performance of tourism companies. However, attention should be drawn to the potential risks of increased financial leverage. Despite its potential benefits, over-reliance on debt can expose businesses to greater financial risk, especially in unstable economic conditions. Therefore, careful management of the financial structure is needed to maintain an optimal balance between debt and equity. The results highlight the importance of careful use of debt as a tool for financing and growing businesses. However, it's important to note that there are certain limitations to this research. The research applies to companies from

the tourism sector in Croatia, and the results may not be directly applicable to other industries or geographical areas. Also, the research is based on cross-sectional data, which limits our ability to fully understand the long-term effects of financial leverage on business performance.

For future research, it is recommended to expand the sample to more industries and different geographical regions to increase the generalization of results. It would also be useful to conduct longitudinal studies to better understand the long-term effects of financial leverage on business performance. Additionally, future studies could include additional variables, such as the economic environment or competitive dynamics, which can influence the relationship between financial leverage and business performance. Despite these limitations, this study provides an important contribution to understanding the impact of financial leverage on business performance. The results of this research can help managers, investors, and other interested parties in making informed decisions about managing financial resources. This study emphasizes the importance of carefully considering financial structure and its impact on business performance.

7. References

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Utjecaj financijske poluge na poslovne performance: kvantitativna studija turističkog sektora hrvatske

Sažetak

Ovo istraživanje analizira utjecaj financijske poluge na poslovne performanse u pet najvećih hrvatskih turističkih kompanija, koje zajedno drže više od 60% turističkih kapaciteta zemlje. Korištenjem kvantitativnih metoda, uključujući deskriptivnu statistiku, korelacijsku i regresijsku analizu, ispitan je odnos između razine duga i pokazatelja poslovnih performansi. Rezultati ukazuju na pozitivan utjecaj financijske poluge na poslovne performanse, sugerirajući da adekvatno upravljanje financijskom strukturom može pridonijeti poboljšanju rezultata poslovanja. Međutim, rad također prepoznaje i potencijalne rizike povezane s prekomjernom uporabom duga, ukazujući na važnost uravnotežene financijske strategije. Unatoč određenim ograničenjima, poput ograničenog uzorka i fokusa samo na turistički sektor, rezultati istraživanja pružaju vrijedne uvide za menadžere, investitore, znanstvenu i akademsku zajednicu. Istraživanje se ističe svojom relevantnošću i aktualnošću, posebno u kontekstu ekonomskih izazova i potencijalnih gospodarskih nestabilnosti. Rad također naglašava potrebu za daljnjim istraživanjima kako bi se bolje razumjeli mehanizmi kroz koje financijska poluga utječe na poslovne performanse, a može poslužiti kao temelj za buduća istraživanja u ovom važnom području.

Ključne riječi: *Uspješnost poslovanja, financijska poluga, financijski menadžment, turizam.*