CAPITAL STRUCTURE AND FINANCIAL PERFORMANCE OF PUBLICLY TRADED COMPANIES IN BOSNIA AND HERZEGOVINA

Aldijana Šahić-Paldum ✉

International Burch University,

Faculty of Economics and Social Sciences,

Department of Management, Bosnia and Herzegovina

aldijana.sahic@hotmail.com

Asmir Omerdić

International Burch University,

Faculty of Economics and Social Sciences,

Department of Banking and Finance, Bosnia and Herzegovina

asmir.omerdic@stu.ibu.edu.ba

Abstract

This study examines the impact of capital structure on the financial performance of publicly traded companies in Bosnia and Herzegovina. Using regression analysis, we investigate whether firms that rely more on debt financing exhibit weaker financial performance. The dependent variables, representing financial performance, include Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE), while the independent variable is the Debt-to-Equity (D/E) ratio, which measures capital structure. The dataset comprises firm-year observations from 2016 to 2023, covering a total of 1,095 firms. Regression results indicate that while the D/E ratio has a statistically significant but weak negative impact on NPM and ROE, its explanatory power is limited. Furthermore, the study finds no significant relationship between the D/E ratio and ROA, suggesting that leverage does not substantially influence profitability in this context. These findings indicate that while debt financing affects profitability and shareholder returns to some extent, other factors may play a more dominant role in financial performance. This study contributes to the understanding of capital structure theories in

transition economies, providing insights for financial managers navigating regulatory and market inefficiencies. However, given the weak predictive power of the findings, capital structure alone may not be a primary determinant of firm performance in Bosnia and Herzegovina.

Keywords: Capital structure, financial performance, debt financing, equity financing, transitional economy, Net Profit Margin (NPM)

INTRODUCTION

The capital structure of a company, its composition of debt and equity financing, has profound implications for financial performance, operational efficiency, and long-term sustainability. While debt financing may provide tax advantages and amplify returns during profitable periods, it can also expose firms to financial distress and bankruptcy risks. Conversely, equity financing avoids repayment obligations but may dilute ownership and returns for existing shareholders. The balance between these financing options, therefore, represents a critical strategic decision for financial managers.

Existing literature extensively investigates the impact of capital structure on corporate performance in developed economies, with a growing body of research focused on emerging markets. However, relatively few studies comprehensively analyze this relationship within the context of transition economies such as Bosnia and Herzegovina. For example, Karanović et al. (2020) highlighted the unique dynamics of capital structure and performance in Croatia's hotel industry, emphasizing the interplay between local market characteristics and financial strategies. Similarly, Mangafić and Martinović (2015) explored the capital structure determinants of firms in Bosnia and Herzegovina, revealing the challenges faced in a transitional environment where the application of traditional capital structure theories, such as the trade-off and pecking order models, may not fully capture the complexities of financing decisions. This suggests a need for further research to better understand how firm-specific factors and local economic conditions shape capital structure choices in the context of Bosnia and Herzegovina.

This study examines how the capital structure, measured by the Debt-to-Equity (D/E) ratio, affects the profitability of publicly traded companies in Bosnia and Herzegovina. By focusing on this transitional economy, the research provides insights into how firms' financial decisions influence their performance, as measured by Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE). Its findings contribute to a better understanding of how capital structure impacts financial performance within the specific financial environment of Bosnia and Herzegovina.

Research Questions and Objectives

This study aims to address the following research questions:

- How does capital structure, measured by the Debt-to-Equity (D/E) ratio, affect the profitability of publicly traded companies in Bosnia and Herzegovina?

- What is the relationship between financial performance indicators such as Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE) and capital structure decisions?

The key objectives of this research are:

- To examine how capital structure, measured by the Debt-to-Equity (D/E) ratio, influences the profitability of publicly traded companies in Bosnia and Herzegovina.

- To identify the key financial performance indicators, Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE), that are most affected by capital structure decisions.

By addressing these objectives, this study enhances the understanding of how capital structure decisions influence firm profitability, providing practical insights for managers and policymakers in transitional economies.

LITERATURE REVIEW

The relationship between capital structure and firm performance has long been a central topic in corporate finance literature. Theories such as the Trade-Off Theory and the Pecking Order Theory provide foundational frameworks for understanding how firms balance debt and equity to optimize performance.

Theoretical Frameworks on Capital Structure

Theories of capital structure provide a foundation for understanding how firms make financing decisions and their implications for financial performance. Several key theories explain the determinants of capital structure and their impact on firm value, profitability, and risk management.

The Trade-Off Theory, initially proposed by Modigliani and Miller (1963) with the inclusion of taxes, suggests that firms seek an optimal balance between the tax benefits of debt financing and the risks associated with financial distress. Interest payments on debt are tax-deductible, effectively reducing a firm's taxable income and enhancing firm value. However, as leverage increases, firms face rising costs of financial distress, such as bankruptcy costs and the potential loss of operational flexibility. The Trade-Off Theory

implies that firms should strategically balance debt and equity to maximize firm value while minimizing financial risk.

In contrast, the Pecking Order Theory (Myers, 1984) posits that firms follow a hierarchical approach to financing, driven by asymmetric information between managers and investors. Firms prioritize internal financing, such as retained earnings, over external sources due to lower costs and reduced exposure to market scrutiny. When external financing is necessary, firms prefer debt over equity, as issuing new equity can signal financial weakness and lead to ownership dilution. This theory suggests that firms do not necessarily target an optimal capital structure but rather adjust financing choices based on information asymmetries and cost considerations.

The Agency Theory, introduced by Jensen and Meckling (1976), highlights the role of agency conflicts in capital structure decisions. This theory emphasizes that conflicts of interest between managers and shareholders can influence financing choices. Managers may have incentives to pursue personal objectives, such as empire-building or excessive risk-taking, rather than maximizing shareholder value. High levels of debt can serve as a disciplinary mechanism by limiting free cash flow available for managerial discretion, thereby reducing agency costs and aligning management objectives with those of shareholders. However, excessive leverage may also introduce agency costs of debt, such as conflicts between debt holders and shareholders regarding risk-taking and financial policies.

These theoretical frameworks provide different perspectives on how firms determine their capital structure and the implications for financial performance. While the Trade-Off Theory suggests a balance between debt benefits and costs, the Pecking Order Theory emphasizes financing preferences based on information asymmetry, and the Agency Theory explores the governance role of leverage in mitigating managerial conflicts. Understanding these theories is essential for analyzing how capital structure decisions influence corporate performance in different economic and regulatory environments.

Empirical Evidence on Capital Structure and Profitability

Numerous empirical studies explore the impact of capital structure on firm profitability across different economic contexts. Ilie and Vasiu (2022) examined companies listed on the Bucharest Stock Exchange in Romania and found that firms with a moderate level of financial leverage tend to achieve higher profitability, which aligns with the Trade-Off Theory. Their study, covering the period from 2017 to 2021, indicated that while leveraging capital can enhance firm value by providing tax advantages and financial flexibility,

excessive debt levels can negatively impact financial performance due to increased financial distress costs.

Gharaibeh (2021) found that firms with higher leverage levels often experience improved Return on Equity (ROE) but may face reduced Return on Assets (ROA) due to increased financial risk. This aligns with the Trade-Off Theory, which posits that while debt financing offers tax benefits, excessive debt can lead to financial distress and lower overall profitability. Conversely, firms relying more on equity financing tend to exhibit greater financial stability and operational efficiency. These findings emphasize the importance of achieving an optimal balance between debt and equity to maximize profitability.

A study conducted on manufacturing firms in Sri Lanka explored this relationship and found a negative correlation between Profit Margin and the Debt-to-Equity Ratio. This suggests that more profitable firms prefer internal financing over external debt, aligning with the Pecking Order Theory. However, the study also found that profitability accounted for only a small portion of the variation in capital structure, implying that other factors, such as industry-specific characteristics and market conditions, play a more significant role. These findings provide additional context for examining the capital structure decisions of publicly traded companies in Bosnia and Herzegovina, particularly regarding the limited explanatory power of profitability in financing decisions (Yogendrarajah & Thanabalasingam, 2011).

A study by Brendea, Pop, and Mihalca (2020) analyzed non-financial firms across eight Central and Eastern European (CEE) countries, finding a negative correlation between debt levels and firm performance.This aligns with the Pecking Order Theory, which posits that firms prefer internal financing over external debt when they have sufficient retained earnings (Myers & Majluf, 1984). While the study highlights broader regional trends in transitioning economies, it does not explicitly report statistical significance, making direct comparisons with other markets more challenging.

Nguyen (2020) investigated the impact of capital structure on firm performance in Vietnam, highlighting the limitations of traditional financial theories in transitional economies. The study found that leverage does not have a significant effect on profitability, suggesting that external factors such as market inefficiencies, governance structures, and political instability play a more crucial role in shaping corporate financial outcomes. These findings emphasize the complexity of financial decision-making in emerging markets, where firms must navigate unique economic and regulatory environments that differ from those in developed economies. Understanding these external influences is essential for firms to optimize their capital structure strategies and improve overall performance.

Despite extensive research, significant gaps remain in understanding the capital structure-performance relationship in transitional economies. Most studies focus on developed markets, leaving emerging and transitional economies underexplored. Additionally, existing research often overlooks the moderating effects of external factors such as market volatility and regulatory frameworks, which are critical in such contexts.

Several studies found no significant association between capital structure and firm performance (Younus et al., 2014; Phillips & Sipahioglu, 2004; Jacob & Ajina, 2020). These findings support the Modigliani and Miller theory of capital structure irrelevance (Phillips & Sipahioglu, 2004; Jacob & Ajina, 2020). Some studies reported weak or negative correlations between capital structure and performance measures (Younus et al., 2014; Uremadu et al., 2018). Research conducted in diverse contexts, including Pakistan, the UK, India, and Nigeria, and across industries such as hospitality, pharmaceuticals, consumer goods, and stock market-listed firms, has yielded varied results. Despite the varied settings, the consistent lack of significant relationships suggests that capital structure may not be a primary determinant of firm performance across these contexts.

METHODOLOGY

Research Design and Approach

This study employs a quantitative research design to analyze the impact of capital structure on the financial performance of publicly traded companies. The research is based on a comprehensive quantitative analysis of financial data from companies listed on the Sarajevo Stock Exchange (SASE) over the period 2016 to 2023. The selected time frame was determined by data availability: Financial Information Agency (FIA) has only provided electronic access to annual financial statements starting from 2016. Although a longer time span, such as the previous 15 years, was initially considered, earlier data were not available in a usable electronic format, making 2016–2023 the most suitable and consistent period for analysis. The dataset consists of secondary financial data obtained from the annual financial statements provided by the FIA, covering a total of 1,095 firm-year observations.

The study employs a research-driven approach, focusing on exploring the relationship between capital structure and financial performance based on established theories. The primary objective is to analyze the relationship between capital structure, measured by the Debt-to-Equity (D/E) ratio, and key profitability indicators, including Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE). Multiple regression analysis is the primary statistical method, supported by diagnostic tests to assess model validity and significance.

Variables and Measurements

This study examines the impact of capital structure, specifically the Debt-to-Equity Ratio, on key financial performance indicators in publicly traded companies. The variables are categorized as follows:

Dependent Variables

Net Profit Margin (NPM): Measures a firm's profitability as a percentage of revenue, reflecting how efficiently the company converts sales into net income after all expenses.

Return on Assets (ROA): Evaluates how efficiently a company utilizes its total assets to generate profits. A higher ROA indicates more effective asset utilization.

Return on Equity (ROE): Assesses the profitability of a firm relative to shareholder equity, indicating how well a company generates returns for its investors.

Independent Variable

Debt-to-Equity Ratio (D/E): Represents the proportion of debt financing relative to shareholder equity. It indicates a firm's reliance on borrowed funds versus internal financing and serves as a key determinant of financial leverage.

Statistical assumptions

To ensure the reliability and robustness of the regression models, the following assumptions were tested:

− Linearity: The relationship between Debt-to-Equity Ratio and financial performance indicators was examined using scatter plots and correlation coefficients to confirm linearity.

− Independence: Observations were checked for independence to ensure no cross-sectional dependencies within firm-year data.

− Homoscedasticity: Residual plots were analyzed to verify that the variance of errors remains constant across all values of the independent variable, addressing potential heteroscedasticity issues.

− Normality: The distribution of residuals was assessed using histograms, Q-Q plots, and the Shapiro-Wilk test, ensuring that errors follow a normal distribution.

− No Perfect Multicollinearity: Variance Inflation Factors (VIF) and tolerance values were calculated to detect and control for potential multicollinearity between independent variables.

− Autocorrelation: Durbin-Watson statistics were used to test for serial correlation in residuals, ensuring that error terms were not systematically related over time.

RESULTS AND DISCUSSION

The results obtained allowed us to make several observations when it comes to determining the effect that performance ratios have on the capital structure of publicly traded companies in Bosnia and Herzegovina. Linear regression analysis was used to determine this effect. For our performance ratios we used Net Profit Margin (NPM), Return on Assets (ROA) and Return on Equity (ROE), the descriptive statistics can be seen in the following table:

Table 1: Descriptive statistics of Debt-to-Equity ratio, Net Profit Margin, Return on Total Assets and Return on Equity

Descriptive Statistics	Mean	Std. Deviation	Min	Max	N
Debttoequityratio	1.443	6.512	.00	2.93	1095
Netprofitmargin	.0691	.02495	.00	2.44	1095
Returnontotalassets	.0192	.0356	.00	.21	1095
Returnonequity	0.697	.3748	.00	2.69	1095

The following section will present the results of the regression analysis, ANOVA analysis, as well as correlation coefficients. Furthermore, the interpretation of the empirical findings is also reported in this section, as well as important conclusions. We ran the regression of performance ratios on the Debt-to-equity ratio with the aim to investigate whether this variable has significant explanatory power. The estimated results will be split into three main sections.

Debt-to-equity ratio and NPM

Table 2: Model Summary of Linear Regression Analysis:
Net Profit Margin and Debt-to-Equity ratio

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.084	.007	.006	.17193

a. Predictors: (Constant), Debttoequityratio

b. Dependent Variable: Netprofitmargin

In the first instance, the impact of the NPM performance ratio on the Debt-to-equity ratio has been investigated using linear regression analysis. This ratio accounts for about 7% of the variation in Debt-to-equity ($R^2 = 0.07$, Adjusted $R^2 = 0.006$). This indicates that NPM is not a

majority driver for explaining the Debt-to-equity ratio, but still has a significant impact, which is explained in Table 3.

Table 3: ANOVA results for Net Profit Margin and Debt-to-Equity ratio

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.231	11.143	.231	7.799	0.005
Residual	32.342	131.067	.030		
Total	32.573	142.210			

a. Dependent Variable: Netprofitmargin   b. Predictors: (Constant), Debttoequityratio

Analyzing Table 3, we can determine that this model is statically significant at the 5% level (p = 0.005) according to the ANOVA table. This implies that, this predictor considerably outperforms the chance-based explanation for changes in the net profit margin ratio.

Table 4: Coefficients of Linear Regression for Debt-to-Equity ratio and Net Profit Margin

Model		Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	T	Sig.
1	(Constant)	.072	.007		10.606	.000
	Debt to equity ratio	-.024	.009	-.084	-2.793	.005

a. Dependent Variable: Netprofitmargin

Lastly, the coefficients show us that there is significant correlation between these two metrics, with an estimated -0.084 unit decrease in NPM for every unit increase in Debt-to-Equity ratio. However, this effect size is small, as reflected by the low standardized beta coefficient, this indicates that the explanatory power of Debt-to-Equity on Net Profit Margin is weak.

Debt-to-equity ratio and ROA

Table 5: Model Summary of Linear Regression Analysis:
Return on Total Assets and Debt-to-Equity ratio

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.004	.000	-.001	.0356

a. Predictors: (Constant), Debttoequityratio

b. Dependent Variable: Returnontotalassets

Table 6: ANOVA results for Return on Total Assets and Debt-to-Equity ratio

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.000	1	.000	.022	.882
Residual	1.391	1094	.001		
Total	1.391	1095			

a. Dependent Variable: Return on Total Assets

b. Predictors: (Constant), Debt to equity

Moving onto the second performance ratio, we have also used the linear regression analysis in order to investigate the effect of ROA ratio on Debt-to-equity ratio. In this instance ROA accounts for 0% of the variation in Debt-to-equity (R^2 = 0.000, Adjusted R^2=-0.001). Furthermore, on the Table 5 we can see that ROA is not statistically significant.

Debt-to-equity ratio and ROE

Table 7: Model Summary of Linear Regression Analysis:

Return on Equity and Debt-to-equity ratio

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.095	.009	.008	.1381

a. Predictors: (Constant), Debttoequityratio

b. Dependent Variable: Returnonequity

Table 8: ANOVA results for Return on Equity and Debt-to-Equity ratio

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.190	1	.190	9.955	0.002
Residual	20.865	1094	.019		
Total	21.054	1095			

a. Dependent Variable: Returnonequity

b. Predictors: (Constant), Debttoequityratio

The last performance ratio which we've tested is ROE, which was also tested on Debt-to-equity ratio. We can confirm that ROE accounts for 0.9% of the variation in Debt-to-equity (R^2 = 0.009, Adjusted R^2=0.08). Lastly, even though the explained variation is slight, this model is

still statistically significant (p = 0.002), which similar to the first model outperforms the chance-based explanation for changes.

Table 9: Coefficients of Linear Regression for Return on Equity and Debt-to-Equity ratio

Model		Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	T	Sig.
1	(Constant)	.038	.005		7.049	.000
	Debt to equity ratio	.022	.007	.095	3.155	.002

a. Dependent Variable: Return on equity

The correlation between Return on Equity and Debt-to-Equity is statistically significant at this level. The unstandardized beta coefficient suggests that for every one-unit increase in the Debt-to-Equity ratio, the Return on Equity ratio will increase by 2.2%. The standardized beta coefficient (0.095) indicates a very weak positive effect on Debt-to-Equity Ratio on Return on Equity.

DISCUSSION

Overall, out of the three models we've carried out, two are statistically significant and identify Net Profit Margin and Return on Equity ratio as drivers of Debt-to-Equity, although having a weak predictive potential. The findings imply that increases in asset use could have a particularly significant impact, which may have practical consequences for businesses looking to increase profitability.

The findings of this study provide insights into the relationship between capital structure and financial performance among publicly traded companies in Bosnia and Herzegovina. The analysis focused on the Debt-to-Equity Ratio (D/E) as the measure of capital structure and three key profitability indicators: Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE). The results indicate a weak but statistically significant negative relationship between D/E and NPM, a weak positive relationship between D/E and ROE, and no significant relationship between D/E and ROA.

In addressing the first research question, how capital structure, measured by the D/E ratio, affects the profitability of publicly traded companies, the results show that higher leverage slightly reduces profitability, as evidenced by the negative relationship between D/E and NPM. This finding aligns with the Pecking Order Theory, which suggests that firms prefer internal financing over external debt when they are profitable. At the same time, the weak positive

relationship between D/E and ROE indicates that while increased leverage may improve shareholder returns, the effect size remains small. The lack of significance in the relationship between D/E and ROA suggests that asset utilization efficiency does not play a central role in capital structure decisions in Bosnia and Herzegovina.

Regarding the second research question, which investigates the relationship between financial performance indicators (NPM, ROA, and ROE) and capital structure decisions, the results suggest that profitability influences leverage decisions but with limited explanatory power. The negative relationship between D/E and NPM supports the argument that firms with higher profitability rely less on debt, while the weak positive relationship between D/E and ROE implies that firms with higher leverage may experience slightly increased shareholder returns. However, the absence of a significant relationship between D/E and ROA suggests that capital structure decisions are not primarily driven by asset efficiency but rather by other factors such as market conditions and firm-specific financing preferences.

These findings provide mixed evidence regarding the relationship between capital structure and profitability. The results indicate that the impact of the Debt-to-Equity (D/E) ratio on financial performance varies across different profitability indicators. While a negative relationship is observed for Net Profit Margin (NPM), Return on Equity (ROE) exhibits a positive association with leverage. Additionally, the study finds no significant relationship between Return on Assets (ROA) and capital structure, suggesting that certain profitability measures are more influenced by leverage than others. These findings contribute to the research objectives by offering insights into how capital structure decisions affect firm profitability and which financial performance indicators are most responsive to changes in leverage.

The results align with previous studies. The negative correlation between D/E and NPM is consistent with the findings of Yogendrarajah and Thanabalasingam (2011), who also reported that more profitable firms tend to rely less on debt financing. However, their study found a stronger negative correlation, possibly due to industry-specific factors, as they focused on manufacturing firms, while this study analyzed publicly traded companies from various sectors. Similarly, Brendea, Pop, and Mihalca (2020) found that higher debt levels were associated with weaker financial performance in non-financial firms across Central and Eastern Europe, reinforcing the Pecking Order Theory.

On the other hand, Nguyen (2020) found no significant effect of leverage on profitability in Vietnam, highlighting that external factors such as market inefficiencies and governance structures play a more crucial role in shaping firm performance. This aligns with this study's findings on ROA, indicating that factors beyond capital structure may drive asset efficiency in Bosnia and Herzegovina. Additionally, other studies, including Younus et al. (2014), Phillips and

Sipahioglu (2004), and Jacob and Ajina (2020), found no significant association between capital structure and firm performance, suggesting that the effect of leverage is not uniform across industries and economic contexts. The weak explanatory power of profitability in this study further supports the argument that capital structure decisions are shaped by multiple external factors beyond firm-specific financial performance.

The findings contribute to the understanding of capital structure decisions in transition economies. The negative relationship between D/E and NPM supports the Pecking Order Theory, confirming that firms in Bosnia and Herzegovina prefer internal financing over external debt when profitable. However, the lack of a significant relationship between D/E and ROA suggests that asset utilization efficiency is not a primary determinant of capital structure decisions, emphasizing the need to consider external determinants such as market conditions, firm size, and regulatory frameworks.

From a practical perspective, the results suggest that managers of publicly traded firms in Bosnia and Herzegovina should carefully balance debt and equity financing to maintain financial stability. Given the weak effect of debt on profitability, firms should focus on optimizing internal resources and alternative financing options rather than increasing leverage to improve financial performance.

CONCLUSION

This study examines the relationship between capital structure and financial performance among publicly traded companies in Bosnia and Herzegovina by analyzing firm-year data from 2016 to 2023. The findings provide empirical insights into how leverage affects key financial performance indicators, including Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE).

The results show that capital structure has a weak but significant negative impact on NPM, suggesting that higher debt levels slightly reduce profitability. The relationship between D/E and ROE is weak but positive, indicating that leverage may marginally improve shareholder returns, although the effect remains small. The analysis found no significant relationship between D/E and ROA, suggesting that asset utilization efficiency does not play a key role in capital structure decisions in Bosnia and Herzegovina.

These findings reinforce the broader understanding of capital structure dynamics in transition economies. The results confirm that firms in Bosnia and Herzegovina, similar to those in Sri Lanka and Central and Eastern European economies, tend to avoid excessive leverage when they are profitable, which is consistent with the Pecking Order Theory. The study also highlights that capital structure decisions are influenced by multiple factors beyond profitability,

emphasizing the importance of external determinants such as market conditions, firm size, and industry characteristics.

Given the limited explanatory power of capital structure on profitability, future research should explore additional factors that may have a stronger influence on firm performance. Investigating macroeconomic conditions, corporate governance practices, and regulatory frameworks could provide a more comprehensive understanding of financial decision-making in transition economies. Further research could also focus on industry-specific analyses to determine whether sectoral differences affect the relationship between leverage and profitability. By addressing these gaps, future studies can contribute to a more nuanced understanding of capital structure decisions and offer actionable insights for financial managers and policymakers.

This study provides empirical evidence on the relationship between capital structure and financial performance in Bosnia and Herzegovina. While the findings indicate that capital structure decisions have some influence on profitability, the weak explanatory power suggests that other factors also play a role. These insights can help firms approach financing strategies with a more nuanced understanding of their impact on long-term financial stability.

REFERENCES

Brendea, G., Pop, F., Mihalca, L. (2022). Capital Structure and Firm Performance: The Case of Central and Eastern European Economies. Ekonomický časopis/Journal of Economics, 70(5), 430-449. 0013-3035. DOI: https://doi.org/10.31577/ekoncas.2022.05.03

Gharaibeh, A. M. (2021). The effect of capital structure on the financial performance of listed companies in Bahrain Bourse. International Journal of Financial Studies, 9(4), 1-14. from https://doi.org/10.11648/j.jfa.20150303.13

Ilie, L., & Vasiu, D. (2022). Capital structure and profitability: The case of companies listed in Romania. Studies in Business and Economics, 17(3), 100-112. from https://doi.org/10.2478/sbe-2022-0049

Jacob, T., & Ajina, V. S. (2020). Capital structure and financial performance of pharmaceutical companies in Indian Stock Exchange. Asian Journal of Managerial Science, 9(2). from https://doi.org/10.51983/ajms-2020.9.2.1641

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure. Journal of Financial Economics, 3(4), 305–360. from https://doi.org/10.1016/0304-405X(76)90026-X

Karanović, B., Stambuk, A., & Jagodic, A. (2020). Profitability performance under capital structure and other firm-specific factors: Evidence from Croatia's hotel industry. Journal of Applied Economic Research, 14(4), 501–523. from https://doi.org/10.31784/zvr.8.1.21

Mangafić, Jasmina & Martinović, Danijela. (2015). The Firm-Specific Determinants of the Target Capital Structure: Evidence from Bosnia and Herzegovina Panel Data. Mediterranean Journal of Social Sciences. 6. from https://doi.org/10.5901/mjss.2015.v6n2s5p188

Modigliani, F., & Miller, M. H. (1963). Corporate income taxes and the cost of capital: A correction. American Economic Review, 53(3), 433–443.

Myers, S. C. (1984). The capital structure puzzle. Journal of Finance, 39(3), 575–592. from https://doi.org/10.2307/2327916

Nguyen, H. T. (2020). The Impact of Capital Structure on Firm Performance: Evidence from Vietnam. Journal of Asian Finance, Economics and Business, 7(4), 97-105. from https://doi.org/10.13106/jafeb.2020.vol7.no4.97

Phillips, P. A., & Sipahioglu, M. A. (2004). Performance implications of capital structure: Evidence from quoted UK organizations with hotel interests. The Service Industries Journal, 24(1), 31–51. from https://doi.org/10.1080/0264206042000276829

Uremadu, S. O., & Onyekachi, O. (2018). The impact of capital structure on corporate performance in Nigeria: A quantitative study of the consumer goods sector. Current Investigations in Agriculture and Current Research, 5(4). from https://doi.org/10.32474/CIACR.2018.05.000217

Younus, S., Ishfaq, K., Usman, M., & Azeem, M. (2014). Capital structure and financial performance: Evidence from the sugar industry in Karachi Stock Exchange Pakistan. International Journal of Academic Research in Accounting, Finance and Management Sciences, 4(4), 349–359. from http://dx.doi.org/10.6007/IJARAFMS/v4-i4/1344

Yogendrarajah, R., & Thanabalasingam, S. (2011). The Effect of Profit Margin on Capital Structure: A Study of Listed Manufacturing Companies of Colombo Stock Exchange (CSE), Sri Lanka. from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2433065