Initial Financing of Croatian SMEs: Financial Reports Evidence

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When starting a business, one of the major decisions that need to be made is how such business will be financed. Entrepreneur can consider different possibilities, the most commonly used sources of financing include own resources of entrepreneur(s) and combination of own resource and borrowed resources. Due to legal requirements, in Croatia it is theoretically impossible to start a company without own resources, although it is possible to start a company with symbolical amount of own resources. For a new company it could be hard to lend money from financial institutions due to the lack of business experience and asset, which could serve as collateral. Considering different available ways of financing new business, the aim of this paper is to analyse how new established Croatian SMEs are financed. The conducted research has shown that new entrepreneurs are using more borrowed resources to finance their asset compared to own resources.

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Introduction

Starting a business it is not an easy decision, it is a well-considered decision accompanied by risk taking, perceived market opportunity, good business idea and designed financial construction. It is not unusual that persons have fear of failure, but this fear can be also bigger and at the same time blocking, in particular if you come from a transition country as it is Croatia. In early nineties' of last century Croatia started its path to an open economy country carrying along the way the heritage from another system. So living and doing business in a relatively young democratic and market economy state can have it is own challenges.

One of the things, which entrepreneurs think and rethink before starting a business it is initial financing. Such decision is very important since 'proper financial capital structure is crucial for obtaining better operational performance' (Burżacka 2017, 8). Entrepreneurs can choose to start their business with their own capital (equity), or with combination of own capital (equity) and debt. Not having own capital, entrepreneur is forced to be open for other financing possibilities. Smaller companies are faced with different challenges regarding the use of equity and/or debt financing, and often the decision to use one of this sources is driven by necessity rather than by choice (Coleman, Cotei, and Farhat 2016).

In line with Croatian legislation, it is impossible to start a business without own resources, with an exception of a newly introduced legal form in which subscribed capital is symbolic and encourages people to open something on their own. Therefore, depending of a legal form that entrepreneur choose to setup its business in Croatia, there are different amounts of subscribed capital, often not leaving them other choices than to borrow money from financial institutions, mostly banks. Being new and small on the market makes them hardly visible and uncertain, based on available assets to the key financial players. On the other hand, alternative financial sources are not so developed and spread at Croatian business scene.

In this paper, the aim is to analyse which source of financing is mostly used in Croatian new companies. Also, the authors perceiving the specifics of different industrial sectors will make the analyses between the major ones, regarding the mentioned topic.

This paper is composed of six sections which emphasis the small and medium enterprises sector in Croatia through conducted primary and secondary research. For primary research purposes, the authors used the companies' financial reports of active Croatian entities that were established during 2019. The conclusion of the paper brings possible way of business model transformation for new companies on Croatian market regarding the sources of initial financing.

Research Background

Theoretical Background

In literature, different theories can be found to explain the debt-equity choice; however, there is no universal theory for explaining it (Myers 2001). Some of these theories include: trade-off theory, pecking order theory, free cash flow theory. The trade-off theory states that companies 'seek debt levels that balance the tax advantages of additional debt against the costs of possible financial distress' (Myers 2001, 81). However, due to little or no revenues generated in the first year of operation, new established companies are less likely to have advantages of using tax benefits (Coleman, Cotei, and Farhat 2016). According to the pecking order theory 'companies will borrow, rather than issuing equity, when internal cash flow is not sufficient to fund capital expenditures,' while free cash flow theory states that 'dangerously high debt levels will increase value, despite the threat of financial distress, when a firm's operating cash flow significantly exceeds its profitable investment opportunities' (Myers 2001, 81). According to Coleman Cotei, and Farhat (2016, 108), the pecking order theory is more suitable to 'explain why small firms tend to prefer equity to debt capital if external financing is required.' Evidently, each of these theories recommends different structure of financing sources (debt-equity).

One of the main characteristics of new established SMES is that they are usually owner-managed. Due to that, they are more prone to issue external debt compared to external equity aiming to preserve both ownership and control (Coleman, Cotei, and Farhat 2016). Although, internal financing, when it is available, is preferred over external financing, companies limit future excess of slack as it constitutes a potential source of conflict (Gaud, Hoesli, and Bender 2007).

The most often emphasized benefit of using debt financing is related to tax deduction, since majority of world's countries allow deduction of payed interests on loans from the corporate tax base, while returns on equity typically do not have such benefit (Hebous and Ruf 2018). However, also equity financing has its benefits as well. When companies do not have obligation to return loans (principals and interest), managers have free cash flow to pursue other goals (Mande, Park, and Son 2012). There are also some other benefits of lower leverage ratio, including greater financial flexibility and higher prestige to the company (Hovakimian, Opler, and Titman 2001).

DEFINING SMES IN EUROPE

European Commission categorize small and medium enterprises (SMES) sector in 3 categories by 3 criteria; number of employees, turnover and balance sheet. The size categories are from small, with less than 10 employees, turnover and balance sheet less than 2 million Euros. The next category includes small business from 10–50 employees and turnover and

TABLE 1 SMES categories

Category	Employees	Turnover	Balance Sheet
Micro	0–10	< €2 million	< €2 million
Small	10–50	< €10 million	< €10 million
Medium	50–250	< €50 million	< €43 million

NOTES Adapted from European Commission (2020a).

balance sheet less than 10 million Euros. The category with the highest numbers in this sector are medium enterprises that employ between 50 and 250 employees, have a turnover less than 50 million Euros and balance sheet less than 43 million Euros (table 1).

Although it is possible to make differences among the SMES regarding their performances, all of them contribute to the development and rise of employment. Small and medium enterprises are seen as the major factor of economic development on different administrative levels – from regional to national (Feeney and Riding 1997) and further. Often are also mentioned the benefits on socio-economic development of this business sector (Cook and Nixson 2000).

SMES contribution to the development it is characterized through different advantages (Keskin et al. 2010) like that SMES provide the strength of element of-balance income spectrum, they make decisions more quickly, they also boost private initiatives and compose an effective way to expand the manufacturing and industrialization to the whole country. Furthermore, SMES are the manufacturer of intermediate goods and inputs of large industrial enterprises, they can be effective in increasing quality of life and from the financial point of view SMES possess a significant role to fulfil the function to reflect small and family savings directly to the investments.

In EU-28 there are 25 million SMES that employ 100 million people. Of these 25 million SMES, 93% are micro businesses, while SMES make 99.8% of all businesses in the EU-28 in the nonfinancial sector. The situation is similar in all Member Shares, where the share of micro SMES is the largest, from 82 to 97.4% depending of country.

According to European Commission (2020b) small and medium enterprises gain more than half of Europe's GDP, add value in every sector of the economy, bring innovative solutions and spread them throughout Europe's regions. Also, they are seen central to the EU's twin transitions to a sustainable and digital economy, but also essential to Europe's competitiveness and prosperity, economic and technological sovereignty. Small and medium enterprises are resilient to external shocks and in the European Union's industrial strategy are core parts of its achievement (European Commission 2020b). In 2018, that is last reported year, micro business had the majority of the impact in increase of value added and employment, so it is the change in SMES size classes (European Commission 2019).

SMES IN CROATIA

In Croatia SMES sector is defined through 2 different legislation frames; the Accounting Act which regulates and classifies entrepreneurs and groups of entrepreneurs ('Zakon o računovodstvu' 2020) and Small Business Development Promotion Act. According to Small Business Development Promotion Act the small and medium economy sector is presented by physical and legal persons who independently and permanently perform permitted activities for the purpose of making a profit or income on the market ('Zakon o poticanju razvoja malog gospodarstva' 2016).

These two acts recognize same categories with the exception of large entities that are not included in The Small Business Development Promotion Act. The criteria for classification the size category in these two acts are also same, only the numerical values for them differ. The Small Business Development Promotion Act follows the European criteria, but in this paper authors followed the criteria defined by Croatia Accounting Act as the research methodology is based on accounting perspective.

The Accounting Act recognizes 4 categories of businesses in the SMES sector; micro, small medium and large enterprises selected by amount of total assets, amount of income and number of employees. The micro enterprises are those with less than 10 employees, with the income up to 639,333.00 Euros and the amount of total assets up to 346,666.00 Euros. The other two categories are small enterprises, with less than 50 employees, amount of income up to 8,000,000.00 Euros and medium enterprises with less than 250 employees, with the income up to 40,000,000.00 Euros and the amount of total assets up to 20,000,000.00 Euros. The large enterprises are those that show larger amounts in at least 2 categories regarding the medium enterprises (table 2).

As the important part of Croatian development, the number of micro and small enterprises has been growing in the last 5 years, together with the SMES sector, although the percentage of this sector in the total number of enterprises in Croatia is constant 99.7% (Singer et al. 2019). Increase

TABLE 2 Classification of Enterprises in Croatia According the Accounting Act

Type	Amount of total assets	Amount of income	Number of employees
Micro	€346,666	€693,333	10
Small	€4,000,000	€8,000,000	50
Medium	€20,000,000	€40,000,000	250
Large	Entrepreneurs who exceed boundary indicators in at least two of the three conditions from the definition of medium entrepreneurs		

NOTES Adapted from 'Zakon o računovodstvu' (2020).

in SMES sector influenced the rise of employment from 422,238 in 2014 to 494,211 in 2018 which was followed by increase in total income and rise of total income per employee from 511,103 in 2014 to 556,159 in 2018. On the other hand, average number of employees has decreased through the years showing the tendency of entrepreneurial activity in which is employed 3.8 employees.

The number of medium enterprises has been rising like the number of small and micro enterprises though is smaller because the percentage of medium enterprises in SMES sector is smallest regarding the size category. Indicators as number of employees in medium enterprises, total income, total income per employee have been rising from 2014 to 2018. Only the average number of employees has varied.

Entering in business with a product or service can have different starting points, that is, enterprises can enter at the market with new product or the one that is already familiar to them. In Croatia, the innovation is something that should be more in focus in the next period, as the entrepreneurs are not innovative and they don't offer new products to the market.

Croatian government has for years been looking on the SMES sector as a strategic point in economic development. *The Strategy of Entrepreneurial Development in Croatia 2013–2020* (Ministry of Entrepreneurship and Crafts 2013) introduced 5 strategic goals which will enhance Croatian entrepreneurial potential, entrepreneurial environment, competitiveness of the sector. The goals are harmonized with those of European Commission and are focused on improvement of economic performance of small businesses in manufacturing and service sectors by investing in R&D, boosting innovation, export and business networks. The Strategy aimed to improve access to finance developing a variety of financial opportunities for small business entities and closing the financial gap for retail economy. The strategic goal to promote entrepreneurship is visible through the law which was introduced in 2013 and edits the categories and roles of entrepreneurial infrastructure as the way to balance the interregional development, followed by boosting entrepreneurial skills by supporting the lifelong learning and enhancement of entrepreneurial environment which was burdened by administrative procedures.

Different entrepreneurial infrastructure have been defined by the Law on Entrepreneurial Infrastructure Improvement ('Zakon u unapređenju poduzetničke infrastrukutre' 2018), helping the establishment and development of businesses but also their environment with a significant impact on entrepreneurial activity. TEA index in Croatia has improved through the years and in the last monitored year has been bigger than EU average (Singer et al. 2019); Croatian 9.6 versus 7.6 EU. The reason of entering in business for most of Croatian is still seen opportunity at the market (TEA Opportunity 6), so it's an index greater than EU average (5.7) but smaller than GEM average (8–9). Due to economic situation and long term unemployment in Croatia, some people have no choice, than to start something on their own. This is the reason why the TEA Necessity index for Croatia (3.1) is double than EU average (1.4), though is equal to GEM average (3.1). For the complexity of entrepreneurial environment and climate in Croatia the motivational index (1.9) is lower than EU average (2.3) and GEM average.

No matter the reason or the height of motivation, for starting a company in Croatia there are multiple options defined by the different criteria and different amount of subscribed capital defined by the law. Starting the most common business in Croatia owned by one or multiple persons, limited liability company (in Croatian: *društvo s ograničenom odgovornošću* – d.o.o.) is possible with start-up capital of 20,000 HRK (2,660 Euros). A type which is relatively newly introduced is simple limited liability company (*jednostavno društvo ograničene odgovornosti* – j.d.o.o.) that has the smallest amount of startup capital 10 HRK (1.3 EUR). The biggest start-up capital of 200,000 HRK (27,000 EUR) as lowest amount of shared capital, is for joint-stock companies.

FINANCING SMES

When starting the business in the absence of enough own money, the possibilities are to borrowed it from family and friends as the most common financial source (Hisrich, Peters, and Shepard 2008). Also, some of startups can decide to borrow money from banks, search for alternative source

Micro, small and medium enterprises			
Experimental and initial phase of enterprise development; startups	Expansion phase	Phase of significant recapitalization	Takeover phase
Own resources, friends, family, business angels, crowdfunding incentives, microcredit, ICO – Initial Coin Offerings	Venture capital, funds, bank credits, microcredit, new platforms, ICO	Equity fonds, strategic partners	Strategic partners, IPO – going public
		Large enterprises	

FIGURE 1 Sources of Financing and Enterprise Development Cycle (adapted from Croatian Bank Association 2018)

of financing or apply for different kind of supports. The hardest thing to SMEs, which governments have recognized, is to be financed by external sources because of the lack of collaterals, the presence of greater information asymmetry with investors and insufficient cash flows (Schwienbacher and Larralde 2010).

In Croatia, the traditional sources of financing are the most important ones, such as: own sources of financing, loans and financial leasing (Croatian Banking Association 2018). On the other hand, the sources that could help in the initial phase and become common in other countries such as venture capital funds, business angels or crowdfunding platforms are still underdevelopment, leaving not so many choices to enterprises in their earliest phases. As figure 1 shows in the experimental and initial phase of enterprise development SMEs sector use own resources, friends, family and also the non-traditional sources. The types of financing sources are different in stages that follow. From accounting perspective resources are divided as own resources (capital and reserves) and barrowed resources (liabilities). The own resources are capital from entrepreneurs, their family and friends, business angels, crowdfunding, etc., while borrowed capital (liabilities) are loans and credits from financial institutions and other borrowers, suppliers, etc. As mentioned before, the research is made by accounting point of view so these are terms that authors will use.

Methodology and the Results

RESEARCH SAMPLE

Taking into account the aim of this paper, i.e. determining how new established entrepreneurs in Croatia are financed, the research sample in-

TABLE 3 Representative Sample Size

Accepted margin of error	10%
Confidence level	95%
Population size	6.688
Response distribution	50%
Recommended sample size	95

NOTES According to Raosoft (2004).

cluded entrepreneurs in initial phase of development. More precisely, active entrepreneurs established during the year 2019 (the latest year for which the financial data are available) were included. In an attempt to exclude entrepreneurs without business activity, only entrepreneurs with one or more employees were considered.

Based on data from Croatian Chamber of Commerce there were in total 6,689 entrepreneurs established in year 2019 that met the following conditions: (1) active entrepreneurs, (2) submitted annual financial statements for year 2019, and (3) one or more employees. Out of this total number of new established entrepreneurs only one is large sized, meaning there were 6,688 new established entrepreneurs from group SMEs. Regarding the legal form of considered new SMEs, 3,550 entrepreneurs were established as simple limited liability company (j.d.o.o.), 3,078 entrepreneurs were established as limited liability company (d.o.o.), 2 as joint-stock company (d.d.) and 58 entrepreneurs were established in other legal form (see https://digitalnakomora.hr).

For purposes of this research the sample of 100 SMEs established in year 2019 was included. Considering the whole population of 6,688 entrepreneurs meeting previously defined criteria, the representative sample size should comprise all least 95 entities with 95% level of confidence (table 3).

Data were collected from entrepreneurs' financial statements for year 2019 through the service of Financial Agency (FINA) during September, October and November 2020. As criteria for selecting 100 SMEs from the population, the value of total revenues was used. Therefore, 100 new established SMEs with highest total revenues were included. However, due to missing data, two companies were skipped, and replaced with subsequent entrepreneurs. Entrepreneurs from all industry sectors were considered. The descriptive statistics of data used in this research are presented in table 4.

TABLE 4 Descriptive Statistics (in 1000 HRK)

Item	*N*	Mean	Min	Max	Median	Std. dev.
Total asset	100	8,035	23	59,282	3,565	10,934
Subscribed capital	100	777	0.010	22,572	20	3,413
Capital and reserves	100	1,744	−21,996	23,713	570	5,441
Liabilities	100	6,222	26	48,994	2,441	9,120
Long term liabilities	100	1,011	0	29,583	0	3,524
Short term liabilities	100	5,211	26,421	48,994	2,257	8,221

As evident from previous table, differences between included SMES are evident. Regarding the size of the entrepreneurs, measured with total asset, it ranges from 23,802 till more than 59 million, with mean value of 8.03 millions of HRK. The value of capital and reserves (own resources) ranges from −22.00 million till 23.7 million, with mean value of 1.7 million HRK. The minimal value of capital and reserves is negative, indicating that some entrepreneurs have larger value of liabilities than total asset (and negative position of capital and reserves). Such situation is reported for 9 out of 100 included entrepreneurs (9%). As for value of total liabilities, it ranges from 26,421 HRK to 48.99 million HRK, with average value of 6.22 million HRK. From the structure of liabilities, it can be seen that in average short term liabilities are higher than long time liabilities. Moreover, for 66 entrepreneurs no value of long term liabilities has been reported. Therefore, companies are mostly using borrowed resources to finance operational activities, and not for purposes of investments.

The values of subscribed capital are ranging from 10.00 HRK to 22.57 million HRK, with mean value 0.78 million HRK. There are only 4 entrepreneurs in the sample established as simple limited liability company (j.d.o.o.) which have subscribed capital lower that 20.000 HRK (minimal subscribed capital for limited liability company). Evidently, entrepreneurs are more prone to start their business as classic limited liability company with minimal subscribed capital of 20,000 HRK. Indeed, majority of entrepreneurs start their venture with minimal value of subscribed capital. Out of total number of entrepreneurs included into sample 76 of them are established with minimal value of subscribed capital (20,000 HRK).

From these descriptive statistics it is already evident that entrepreneurs are using more borrowed sources compared to own sources of financing (higher mean value of liabilities than capital and reserves).

TABLE 5 Research Results for Structure of Financing New Established Enterprises in Croatia

Item	*N*	Mean	Min	Max	Median	Std. dev.
Self-financing ratio	100	0.1702	−8.8425	0.9589	0.2108	0.9907
Leverage ratio	100	0.8298	0.0411	9.8425	0.7892	0.9907
% of subscribed capital in total asset	100	5.54%	0.00%	84.03%	0.73%	16.2643

RESEARCH RESULTS

In order to provide answers on defined research question regarding the structure of financing new established entrepreneurs, data from financial statements have been used. From accounting point of view, own resources include balance sheet position of Capital and reserves, while borrowed resources include position of Liabilities (Long term and Short term liabilities). These values have been put in relation with total asset in order to get information about the proportion of entrepreneurs' asset financed from own and from borrowed resources. Therefore, the following indicators have been calculated and analysed: Self-financing ratio (calculated as ratio between Capital and reserves and Total asset) and Leverage ratio (calculated as ratio between Liabilities and Total asset). Additionally, the ratio between subscribed capital and total asset has been calculated in order to identify how much of entrepreneurs' asset is financed from subscribed capital invested from owners. Table 5 contains the results of the analysis.

As evident from the previous table new established entrepreneurs are dominantly using borrowed resources for financing their asset. In average, 83% of total asset is financed from liabilities (borrowed resources), while only 17% of total asset is financed from Capital and reserves (own resources). Therefore, majority of asset, in average, is financed from borrowed resources that need to be returned to their owners in future. The minimum value of self-financing ratio is negative (−8.8425) and this is situation where enterprises are reporting negative position of Capital and reserves in their Balance sheet (liabilities higher than total asset). The maximum calculated value of self-financing ratio is 0.9589 indicating that in this enterprise 95.9% of total asset is financed from own resources. The company with highest value of Self-financing ration, at the same time is exhibiting the lowest value of Leverage ratio (0.0411), indicating that the rest of this enterprises' total asset (4.11%) is financed from borrowed re-

TABLE 6 Research Results for Structure of Financing New Established Enterprises in Croatia for Leading Industry Sectors

	N	Self-financing ratio			Leverage ratio			Percentage*		
		Mean	Min	Max	Mean	Min	Max	Mean	Min	Max
(1)	38	−0.017	−8.843	0.769	1.017	0.231	9.843	4.37	0.00	81.73
(2)	21	0.348	−0.141	0.959	0.652	0.041	1.141	5.69	0.06	81.43
(3)	14	0.337	0.002	0.651	0.663	0.349	0.998	0.86	0.02	3.17
(4)	8	0.368	0.074	0.868	0.632	0.132	0.926	2.20	0.19	12.21
(5)	7	−0.063	−2.534	0.764	1.063	0.237	3.534	9.14	0.06	59.55
(6)	12	0.261	−0.110	0.804	0.739	0.196	1.110	14.61	0.04	84.03

NOTES Row headings are as follows: (1) wholesale and retail trade; repair of motor vehicles and motorcycle, (2) manufacturing, (3) construction, (4) transportation and storage, (5) accommodation and food service activities, (6) other sectors. * Of subscribed capital in total asset.

sources. The maximum calculated value of leverage ratio is 9.8425 (higher than 1) indicating that total liabilities are higher than total asset. Enterprises reporting higher values of total liabilities than total asset could experience significant financial problems since even if all of its asset would be sold it would not be enough to pay off all liabilities.

The indicator percentage of subscribed capital in total asset indicates that, in average, enterprises are financing only 5.54% of their asset from subscribed capital. The minimum reported values for this indicator is 0.00%, while the highest value is 84.03%.

STRUCTURE OF FINANCING NEW ESTABLISHED ENTERPRISES IN CROATIA BY INDUSTRY SECTORS

In addition to analysing the financing source structure for all set of companies included into research, a more detail analysis financing source structure for leading industry sectors has been performed. The results are presented in table 6.

As can be seen from previous table, the most favourable structure of financing resources is within Transportation and storage (Sector H) where in average 37% of asset is financed from own resources, and 63% from borrowed resources. Just a little less favourable results are reported for Manufacturing sector (Sector C) where in average 35% of total asset is financed from own resources, and 65% from borrowed resources and for Construction sector (sector F), where 34% of total asset is financed from own resources, and 66% from borrowed resources. At least favourable situation is reported for Accommodation and food services activities (Sector I), where self-financing ratio has the lowest average value, and the highest leverage ratio. In average, within this sector the value of liabilities is higher than total asset. The average value of self-financing indicator is negative also for new entrepreneurs established within the biggest industry sector, i.e. sector of wholesale and retail trade; repair of motor vehicles and motorcycle (Sector G).

Discussion and Conclusion

The decision to start a new business adventure is not easy and a lot of different factors need to be taken into account. One of the major decision that entrepreneur needs to make is how to finance its new business. There are different possibilities which entrepreneurs can consider when starting a business, such as using their own resources and resources from their friends and family, collecting money using crowdfunding, alliance with business angels, lend money from financial institutions or other creditors, etc. From accounting point of view, different sources of financing can be grouped into two categories: capital and reserves (own resources) and liabilities (borrowed resources). Sources of financing entrepreneurs' asset are presented in balance sheet which entrepreneurs are obligated to prepare on annual basis.

The main aim of this research was to explore how new established entrepreneurs are financed. The research was conducted on a sample of 100 active Croatian entrepreneurs that were established during year 2019. The financing structure was analysed based on data from financial reports (balance sheet) for year 2019. Based on collected data an attempt to provide answer whether Croatian new established entrepreneurs are more using own or borrowed resources to finance their new established business. Majority of new established business start as micro or small enterprise, and grow as their business activities are spread and more developed. Because of that, in focus of this research will be new established SMEs.

New business can be established in different legal form, including limited liability company, simple limited liability company, publicly listed company, etc. Depending on the chosen legal form, different amount of minimal required subscribed capital is required by the law (10 HRK for simple limited liability company, 20,000 HRK for limited liability company and 200,000 HRK for publicly listed company). Based on entire population of new established entrepreneurs in 2019, simple limited liability companies and limited liability companies are mostly used form to start a new business. However, when considered only 100 biggest new entrepreneurs (in terms of total revenues), limited liability companies dominate and there are only few entrepreneurs established as simple limited liability enterprise. Research has shown that majority of new entrepreneurs are set up with minimal required amount of subscribed capital what results with low level of creditors protection and increased exposure to larger set of risks.

The research results have also shown that using borrowed resources (liabilities) dominate as a source of financing asset. Moreover, in average majority of new entrepreneurs (82.3%) are financed from borrowed resources (liabilities). Considering security of doing business, such indicators point out to potential problems with continuation of business operations in the future. Entrepreneurs will be obligated to pay off barrowed money and it is questionable if they will have enough liquid assets to do so. The optimal solution for this situation is to increase own resources by additional capital payment by the owners (or including additional owner(s)). Additionally, some entrepreneurs have self-financing ratio negative and leverage ratio higher than one, indicating that total liabilities are higher than total asset. These entrepreneurs are in greater risk of bankruptcy, and decisions regarding future operations should be made. If entrepreneur expects that in following years it will generate profit, these future profits can be used to cover the loss generated in first year of doing business. Additionally, entrepreneurs in these situations can also increase the value of subscribed capital.

As it has been shown, in average entrepreneurs' liabilities are higher than capital and reserves. Another potential problem that has been identified is related to the structure of these liabilities. Majority of these liabilities are short-term liabilities which are primary result of acquiring resources for production or providing services, including accounts payables, taxes payables, liabilities toward employees, etc. Such situation indicates that entrepreneurs have problems with financing every day's business operations.

Obtained results are in line with the ones obtained by Robb and Robinson (2014) who found that those companies in their start-up phase rely more on external debt sources and less on friends and family-based sources. However, there are also studies that identified opposed results. For example, Cotei and Farhat (2017) found that entrepreneurs in their start-up phase mostly rely on initial insider capital sources.

A research that involved 8,000 small and medium enterprises in

United Kingdom, showed that majority of high growth SMEs rely strongly on debt-based finance for their funding (Brown and Lee 2019). In Australia, 46% of SMEs are interested in equity funding (Dwyer, Duncan, and Southam 2020). Comparative analyses of two countries United Kingdom and China showed how types of financing change during the company life cycle. Regarding initial funding big percentage of included companies relied exclusively on financial support from their immediate family (Hussain et al. 2006). As the research followed the companies for 5 years, the same one showed that after 2 years in business, they higher rely on own savings and the financial support of bank and other financial institutions than family. At the end of five years of business continuity, most of the companies in the UK sample relied for their borrowing needs primarily on financial institutions and to a lesser extent upon their own savings. On the other hand, China's companies depended mainly upon financial support from their immediate family and to a smaller extent on financial institutions.

From all presented results, it can be seen that new entrepreneurs are facing certain problems related to financing their asset. This situation could be improved by promoting and providing asses to own resources. Firstly, entrepreneurs could join their capital (own resources) and start joint ventures and in such a way own resources would be higher and risks reduced, but also divided. Next opportunity is alliance with business angels. Entrepreneurs could start their new business with the support of business angels, which could contribute with financial equity and be a partner in new business. There is also possibility of using equity based crowdfunding which is a great opportunity for new business. Equity based crowdfunding or crowdinvesting represents 'a financing method for young ventures and other commercial projects that supports the acquisition of equity by coordinating the submission of different forms of shares to an undefined group of possible investors through social virtual communities' (Hagedorn and Pinkwart 2016, 72). However, the use of equity based crowdfunding may be limited with the availability of crowdfunding platforms for some country, but also with regulation of doing business in certain country. Croatia, as a relatively young country, doesn't have such developed scene of alternative, non-traditional sources of financing. On the other hand, this is something that is more connected with high tech companies that grow and develop fast. So, thinking about it should be limited by branch in which a new business in established. But, as the need for more available financial sources emerges, there should be initiatives to make a transition to a business ecosystem that is boosting innovation, with a synergy of different actors. The difference could happen introducing to the ecosystem universities as an active part of the puzzle with a high potential of contribution to the creativity and orientation to innovation of the youth. Developing ecosystem could contribute to better results of doing business and lower level of indebtedness. Governments (national, regional and local) as a significant part of business ecosystem could boost the entrepreneurial potential, make the environment more business friendly, especially for new established enterprises.

Availability of entrepreneurial infrastructure, like business or technological incubators, could also facilitate doing business, but also reduce costs and liabilities of new business. In such a way, structure of financing resources could also be improved. With an existing Law on Entrepreneurial Infrastructure Improvement and Register of Croatian entrepreneurial infrastructure, there were made improvements regarding systematization, transparencies and utility of elements of entrepreneurial infrastructure that can facilitate business, not only in their early stages, but also after, when they are in need to transfer to a more wider space and make connections with other entities (example business zones). As a part of entrepreneurial infrastructure activities or different curricular and extracurricular programmes, entrepreneurial and financial education of entrepreneurs could also contribute to the improvement of business activities in some early stages of business.

So, by increasing the proportion of own resources (firstly learning how and why do it), the structure of financing sources would be improved and risks decreased. Additionally, entrepreneurs could also exhibit other financial benefits, like improved liquidity and/or profitability.

There are several contributions of this research. Firstly, the results have reveal that new established enterprises have high levels of leverage, i.e. they mostly rely on borrowed resources to finance their asset what could result with financial problems in the future. Secondly, research has shown that majority of new enterprises are established with minimum required amount of subscribed capital what leads to the problem of low level of creditors protections and raises question about capital adequacy of such companies.

Additionally, research has been conducted on a sample of SMES operating in Croatia, a small, transitional country. Croatia is a country with limited experience in capitalism, and just thirty years ago has started the process of transition, what makes it interesting area for this research. On the other hand, this is also one of the limitations, the size of the country, which doesn't allow making general conclusions but can be a good starting position for further research, to compare Croatian situations with a similar neighbour country which has also been in transition cycles. Moreover, as during the operating years, some of company needs change, other possible direction for the future research could be to compare the same companies with the leg in time, to see if they are still profitable and liquid and if they have made the switch from initial financing sources to some other and how many of them.

To conclude, results of this research could be of interest for practitioners, but also for policy makers. Practitioners could get information how their competitors are financing their asset and to do benchmarking. Additionally, paper contains suggestions for improvements what could be of interest for practitioners. Policy makers could use results of this study as a base for improvement of current policies in order to make entire society more environmentally friendly, especially for new established business.

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