CAPITAL STRUCTURE AND DIVIDEND POLICY

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Abstract: The Capital Structure describes the combination of various components on the right side of the balance sheet. In general, it is a combination of debt and equity where the composition of the company’s debt and capital will determine the dividend policy of the company’s value. The value of the company reflects the present value of the expected income in the future. The financial management function can maximize the value of the company. Optimal capital structure will also affect dividend policy and high dividend payout will be responded by investors as a sign that the company is in good condition. A high dividend policy will also be responded to by an increase in share prices which will increase the value company.

Keywords: Capital Structure, Dividend Policy and Firm Value.

INTRODUCTION

Recall the balance sheet of a company. The left side is an asset, called the asset / business structure. The right side is debt and equity called the financial structure (financial structure). The capital structure is defined as the composition and proportion of long-term debt and equity (preferred stock and common stock) determined by the company. Thus, the capital structure is financial structure reduced by short-term debt. Short-term debt is not taken into account in the capital structure because this type of debt is generally spontaneous (changes according to changes in sales levels). Meanwhile, long-term debt is fixed over a relatively long period of time (more than one year) so that financial managers need to think more about its existence. That is the main reason why the capital structure consists only of term debt length and equity. For that reason, the cost of capital only considers long-term funding sources (not including short-term
In increasing its shareholders, the company does not only want to get high profits, but also wants to be able to increase the value of the company. According to Manopo and Arie (2016: 468), the importance of company value makes investors more selective in investing in providing credit to companies. The value of the company will give a positive signal in the eyes of investors to invest in a company, while for creditors the value of the company reflects the company's ability to pay off its debts so that creditors do not feel worried about giving loans to the company. The capital structure is a consideration or comparison between the amount of long-term debt and own capital used by the company, according to Riyanto, capital structure is a comparison between long-term debt and own capital used by the company, according to Riyanto, capital structure is a combination of all items that enter the right side of the company's balance sheet. Understanding the capital structure is distinguished from the financial structure where the financial structure reflects the balance of the entire forest (both long term and short term). Capital structure is a company's long-term permanent funding represented by debt, preferred stock and equity shares normal.

The capital structure of a combination of: debt and equity. In general, research is concerned with what factors influence this combination. On the other hand, textbooks usually discuss the optimal cost of capital, which is the weighted average of the capital components, which is often referred to as the weighted average cost of capital (WACC). The relative levels of equity and debt affect risk and cash flows, and therefore, the amount investors are willing to pay for a company or for an interest in it. Capital structure refers to the amount of debt and/or equity used by a company to fund its operations and finance its assets. The company's capital structure is usually expressed as a ratio of debt to equity or debt to equity. According to Riyanto, the capital structure is a comparison between long-term debt and own capital used by the company, according to Riyanto, capital structure is a combination of all items that enter the right side of the company's balance sheet. Understanding the capital structure is distinguished from the financial structure where the structure is a permanent learning that reflects between long-term debt with own capital, while the financial structure reflects the balance of the entire forest (both long term and short term). Capital structure is a company's long-term permanent funding represented by debt, preferred stock and equity shares normal.

LITERATURE REVIEW
Basic Concepts of Capital Structure
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LITERATURE REVIEW

company in general consists of several components, namely:

1. Foreign capital or term debt long foreign or long-term capital is debt with a long term, generally more than ten years. This long-term debt is generally used to finance expansion. Company (expansion) or modernization of the company, because the capital requirements for these purposes include a large amount big.

   The capital structure is basically a permanent financing consisting of own capital and foreign capital where own capital consists of various types of shares and retained earnings. The use of foreign capital will cause a fixed burden and the amount of use of this foreign capital. Determine the amount of financial leverage used as a company.

2. Capital alone

   Own capital is capital that comes from the owner company and embedded in the company for an indefinite period of time. Own capital comes from internal and external sources. Internal sources are obtained from the profits generated by the company while external sources come from company owners.

**Capital Structure Theories**

Understanding the basics of capital structure theory is very important, because the selection of the **financing mix** is the core of the overall business strategy. The capital structure is the mix of permanent (long-term) funding sources used by the company. The aim of capital structure management is to create a mix of permanent sources of funds in such a way as to be able to maximize share prices and so that the objective of financial management is to maximize the value of the company. The ideal funding mix that management always strives for is called the **optimal capital structure**.

One topic of endless debate in financial management is the relationship between capital structure and the cost of capital. Can a company influence its share price and overall cost of capital for better or worse by changing its mix of funding sources? According to the economic logic that Very In simple terms, it makes sense for a company to try to minimize its cost of capital and maximize its share price so that the company's value is maximized. A determination of the optimal level of financial leverage or the optimal composition of funding by minimizing the company's cost of capital is tantamount to maximizing the company's market value. Therefore, the implications of capital restructuring to achieve optimal funding composition need to be observed.²

Some Structure Theories as follows:

1. Traditional Approach Theory

   This theory states that there is an optimal capital structure. That is,

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the structure has an influence on the company, in which the structure can change in order get optimal company value.

2. Modigliani and Miller Approach

theory liyani and Miller Modigliani and Miller approach theory with tax states that structure is irrelevant to firm value. The value of two identical companies will remain the same and will not influence the financial choice adopted to finance the assets. Modigliani and Miller then put forward several assumptions to construct their theory among them ie no agency, no cost, no tax, no bankruptcy fees. Investors can benefit from the same interest rates from companies and investors have similar information about management about the company’s future prospects front.

3. Theory trade-offs

This theory determines the optimal structure by taking into account several factors, such as taxes, agency fees or financial difficulties, but still maintaining a metric assumption that is information and market efficiency so, business actors will think of saving on tax and cost difficulties finance.

4. The packing order theory states that the profit level of a company that has been high will have a higher level of debt small.

5. The theory of information asymmetry and signaling of the capital structure states that parties related to the company do not have the same information about the presence of company risk according to the signaling of capital development with the use of debt in that structure is a signal conveyed from managers to market managers managers ensure the company's prospects well with increasing stocks and consuming to investors.

6. Agency theory This theory states that the structure is created to reduce conflict between groups that have interests.

**Dividend Policy**

Dividend policy is part or all of the company's profit in running the business which is distributed to shareholders. In the distribution of dividends in a company must determine decisions that must be taken through dividend policy. Dividend policy is an integral part of the company's funding decisions. Dividend policy concerns the use of profits that are the rights of shareholders (wiagustini.2014:255).

Dividend policy often creates a conflict of interest between the shareholders. Dividend policy is a difficult decision for the company's management, because the distribution of dividends on the one hand will meet the expectations of investors to get a return as a profit from the investment they make.

Dividend policy as a mechanism for reducing agency problems can be used effectively simultaneously with the use of debt in the capital structure as an effort to improve lender monitoring. This dividend policy can be used to reduce agency problems. Bonding can be done through a dividend policy (reducing free cash flow), while monitoring can be done by involving lenders in reducing the behavior of opportunistic managers.
Various costs that can arise due to agency problems are:

The monitoring expenditures by the principal, are expenditures paid by the principal to measure, observe and control the agent’s behavior so that it does not deviate. These costs arise due to an imbalance of information between the principal (owner) as the supervisor and the agent (manager) as the executor.

The bonding expenditures by the agent, are expenses paid by the agent (manager) to create an organizational structure that minimizes unwanted manager actions, thereby guaranteeing that principals will provide compensation if they have carried out orders principals.

The residual loss, costs incurred because of the opportunity cost, because the agent cannot make decisions without principals approval. This is motivated by the potential for differences in the interests of principals and agents, so that the prosperity of principals decreases. This condition occurs when agents carry out decisions from principals but their welfare does not increase, and vice versa. decisions of principals are not implemented but can improve the welfare of agents, so that principals must bear the cost of losses (residual) loss.

A company's dividend policy is very important and requires consideration of the following factors:
1. Companies must protect the interests of investors. Therefore, the company's financial policies must be able to convince and guarantee the achievement of objectives for its shareholders.
2. Dividend policies affect the company's financial and capital budgeting programs.
3. Dividend policy affects the company's cash flow. Low liquidity automatically will limit the distribution of dividends.\(^3\)
4. Based on the important influence of dividend policy both from companies and investors, what can be said to be profitable companies are companies that are able to pay dividends (Sari and Sudjarni, 2015). Dividend policy is very important for companies to be able to determine whether the profits earned by the company should be distributed to shareholders or will be retained to be able to help support the growth of the company. Dividend policy in a company will determine the distribution of dividends to shareholders share.

**Relationship between Capital Structure and Dividend Policy**

Dividend policy has an influence on the level of use of a company's debt. A stable dividend policy makes it imperative for companies to provide a certain amount of funds to pay these fixed costs.
dividends.

Therefore, the capital structure has an influence on the dividend policy applied by the company. Research on capital structure and dividend policy which Optimization is needed to increase shareholder value and prosperity. Optimal capital structure will also affect dividend policy and high dividend payout will be responded by investors as a sign that the company is in good condition. A high dividend policy will also be responded to by an increase in stock prices which will increase the value of the company.

The capital structure directly to agency costs is positively significant. This result is consistent with the prediction of the hypothesis which states that capital structure has an effect on agency power. The greater the use of debt, the greater the consequence the interest expense and the greater the probability that there will be a decrease in income. This condition can cause the threat of bankruptcy (financial distress). If the company goes bankrupt, bankruptcy costs will arise, which are caused by, among others: the existence of being forced to sell assets below market prices, company liquidity costs, damage to fixed assets that takes time before they are sold and so on.

The agency theory of Jensen and Meckling (1976) which states that the greater the use of debt in the capital structure can reduce agency costs. This is due to the existence of this debt, it requires managers to act very carefully, especially in managing finances, among others, by reducing free cash flow and can encourage them to work more efficiently, considering that compensation for the use of debt is the company's obligation to return principal and interest from loans the.

CONCLUSIONS

Capital structure is a comparison between long-term debt and own capital used by the company, according to Riyanto, capital structure is a combination of all items that enter the right side of the company's balance sheet. Dividend policy is a difficult decision for company management, because dividend distribution on the one hand will meet investors' expectations of getting a return as a profit from the investment they make. Capital structure has an influence on the dividend policy applied by the company. Research on optimal capital structure and dividend policies is needed to increase shareholder value and prosperity. Optimal capital structure will also affect dividend policy and high dividend payout will responded by investors as a sign that the company is in good condition. The high dividend policy will also be responded to with an increase in stock prices that will increase the value of the company.

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