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CAPITAL STRUCTURE OPTIMIZATION THEORIES

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Abstract

This in the thesis corporate finance of the field central from problems one is capital structure optimization issue theoretical point of view from the point of view analysis Traditional from the approach pull modern market time to theory was seven main theoretical approach seeing out , their essence , main postulates and mutual differences open Research results this shows that no one theory capital structure formation all aspects complete explain can't , that's it because of in practice integrated approach application to the goal is appropriate .

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The enterprise financial under the management capital structure issue central place The capital structure is enterprise activity in financing usable own and debt funds ratio representative concept is the company's market value , capital price and financial to stability directly impact shows the capital structure . optimization , that is so ratio to find , then of the enterprise capital average weighed cost (WACC) is minimal and market value maximum be it corporate finance theory the most important and controversial from problems one as day in order is standing .

20th century second half starting capital structure the issue to explain aimed at many scientific approaches formed . This theories financial decisions acceptance to do in the process theoretical and practical importance has are , they are enterprise of the management financing sources in choosing important methodological basis task will do . This in the thesis capital structure optimization according to main theories analysis is done , their advantages , disadvantages and mutual differences illuminating is given .

1. Capital structure concept and his/her essence

Capital structure concept wide and in a narrow sense interpretation In a broad sense , it is the enterprise's all financial resources , including own capital , long term and short term debt obligations the sum of means . In the narrow sense and many theorists by acceptance made to the definition according to , capital structure only far term financing sources — own capital and far term debt funds ratio represents .

Capital structure optimality following criteria through is evaluated : first , the capital average weighed cost (WACC) at the lowest level to be ; secondly , the enterprise market value maximum to be ; thirdly , financial stability and payment ability fourth , the provision of capital profitability enough at the level to be preserved . That is exactly what criteria according to various theories from each other difference doer explanation and recommendations offer will reach .

2. Traditional approach

Traditional approach capital structure theories the most initial shape is considered and the 20th century first in the middle formed . This approach supporters (D. Durand, 1952 and others) optimal capital in the enterprise structure the existence and him/her find possible They emphasize . Traditional to the theory according to , debt of funds price own capital lower than the price due to debt share known to the border increase WACC indicator to reduce take comes and thus the enterprise value increases .

However debt share from a certain optimal point exceed When leaving , the level of financial risk sharp increases and this own both debt and equity capital price to increase reason As a result, the WACC will decrease . stop and start again climb begins . So, traditional approach according to each enterprise The optimal capital for which the WACC is minimal is structure there is This will be approach main its disadvantage is empirical to the evidence not , maybe intuition and to observe based on the optimal point clear mathematician in a way find methodology enough working It is not released .

3. Modigliani-Miller theorem

In 1958 by F. Modigliani and M. Miller working issued theorem capital structure in theory revolutionary approach It was a perfect market . in conditions (taxes absence , bankruptcy expenses to zero equal , information symmetry available , transaction expenses no) Modigliani and Miller of the enterprise market value his/her capital to the structure related that it is not mathematician in a way This is the first is called Proposition I and it is capital structure neutrality thesis previously pushes .

Second according to the rule (Proposition II) own capital price debt share increase with linear accordingly exceed goes , this and from debt removable profit shareholders for increasing with increasing risk compensation In 1963, the authors own theorem again seeing out , corporate taxes existence under the circumstances the model improved . According to the updated model percent payments tax insertable from the base deduction because of " tax" "tax shield " effect to the surface comes and this debt more to share has to be economic in terms of attractive does . Logical conclusion from that consists of taxes there is under the circumstances to the enterprise complete from debt consists of capital to the structure has to be useful . This conclusion theoretical in terms of perfect although , practice with to conflict has is , next theories to the formation motivation it has been .

4. Trade -off theory

Compromise theory of the Modigliani-Miller model restrictions eliminate to grow for the purpose This is formed . according to theory (A. Kraus and R. Litzenberger, 1973; S. Myers, 1984) , optimal capital structure from debt removable tax tax shield and debt with related was financial difficulty between financial distress costs compromise as a result is formed . Debt share increase with together , the company to bankruptcy meeting the probability also increases goes , this and direct (legal) expenses , court expenses) and indirectly (customers) loss , qualified of employees departure , suppliers with of relationships deterioration) costs brought releases .

Static compromise optimal capital in the model structure additional debt borderline tax benefit his/her borderline financial difficulty at the expense of equal was on point Dynamic compromise model and of the enterprise time during his/her own targeted capital to the structure slowly approaching into account takes , because capital structure change with related transaction expenses available . Empirical research this shows that enterprises really specific targeted debt to the ratio has from it temporary aside Even if they come out , slowly this in proportion they will return .

5. Hierarchical Pecking order theory

In 1984 by S. Myers and N. Majluf working issued hierarchical financing theory information asymmetry to the concept This theory is based on according to , managers external to investors relatively enterprise activity and prospects about more for information has External investors such in the situation new shares only their market price real undervalued just by chance buy they receive it is possible , this and enterprise for is a negative signal .

For this reason enterprises financing sources following strict hierarchy in order choose : first next — internal resources (unallocated benefit and depreciation deductions); second next — debt funds ; and only the most last measure as — new stocks emission . Hierarchical theory , compromise from the theory different as , optimal capital structure rejects the concept and of the enterprise current capital structure historical financing of decisions sum as This theory is particularly relevant for high profitable enterprises what for less debt level save what remains in explanation effective is considered .

6. Agency expenses theory

In 1976 by M. Jensen and W. Meckling working issued agency expenses theory capital structure to the problem corporate management point of view from the point of view approaches . In the enterprise three kind of interests collision to the surface arrival possible : shareholders and managers between , shareholders and creditors between and various shareholders groups between . Such conflicts agency costs (monitoring costs , connection expenses and residue losses) himself manifestation does .

Debt from the funds use two one-sided to the effect On the one hand , debt managers disciplined empty money free cash flow is ineffective to projects spending prevent (Jensen, 1986). This is the debt disciplinarian task . Other from the side , above debt level creditors and shareholders between to the dispute reason is , " assets " "asset substitution" and " investment " " underinvestment " problems brought issues . Optimal capital different structure agency expenses with the minimum sum on point is formed .

7. Signal theory

Proposed by S. Ross in 1977 signal theory is also information asymmetry to the problem based , but hierarchical from theory different approach offer This theory according to , capital structure change to the market certain signals sends . Debt share increase managers enterprise to the future was of trust sign as as a positive signal service does , because bad promising enterprise additional debt to take I don't want to , I'll pay. not getting danger there is .

On the contrary , new stocks emission is a negative signal , because this managers enterprise shares real from the value high at the price being quoted knowledge with interpreted as related This theory is empirical observations with approved : new stocks emission announcement when done , the enterprise shares price usually decreases , debt emission announcement when done and price strong unchanged remains or rises a little .

8. Market Timing Theory

Developed by M. Baker and J. Wurgler in 2002 issued market time theory of enterprises financing sources choice with related decisions of the market current conjuncture point of view from the point of view explains . This to the theory according to , enterprises stocks price high when new stocks releases and on the contrary , stocks when the price is low them again buy takes or debt from the funds uses .

This approach as a result current capital structure historical market time of attempts assembled result as Market timing theory traditional from theories different as , optimal capital structure rejects the concept and of the enterprise capital structure targeted to the level approach in the process not , maybe managers market to the conditions reaction as a result It is considered to be formed .

9. Theories comparative analysis

Above seeing issued theories capital structure to the problem various point of view from the point of view approaches . Traditional approach and compromise theory of optimal capital structure the existence emphasizes and him/her find according to recommendations The Modigliani-Miller theorem , on the other hand , is perfect . market under the circumstances capital structure neutrality proves . Hierarchical theory and market time theories optimal structure the concept completely rejects , the agency expenses and signal theories and capital structure decisions corporate management and information asymmetry in the context of explains . Theories comparative The description is given in Table 1 .

Table 1. Capital structure theories comparative description

Theory	Home idea	Optimal structure existence	Home authors
Traditional approach	WACC is minimal optimal structure at the point	Yes	Durand (1952)
Modigliani-Miller theorem	perfect market capital structure neutral	None (tax-free) / 100% debt (taxable)	Modigliani , Miller (1958, 1963)
Compromise theory	Tax benefit and bankruptcy expenses balance	Yes	Kraus , Litzenberger (1973); Myers (1984)
Hierarchical theory	Financing sources hierarchy	No	Myers , Majluf (1984)
Agency expenses theory	Benefits collision minimize	Yes	Jensen , Meckling (1976)
Alarm theory	Capital structure through to signal to the market	Indirectly	Ross (1977)
Market time theory	Market conjuncture based on financing	No	Baker , Wurgler (2002)

Empirical research this showed that no one theory capital structure formation all aspects complete explain Various industries networks , enterprises dimensions and development stages different for theories relatively more explanation to the power has . High tax rates under the circumstances compromise theory column comes , high information asymmetry in conditions — hierarchical theory , high market variability under the circumstances market time theory more important role plays .

Conclusion

Capital structure optimization theories corporate finance the most complicated and controversial from the fields one become remains . This analysis this shows that the optimal capital structure concept about the only, general acceptance made approach there is Not every theory of the problem known aspects open gives and others with mutual filled without is used .

Practical point of view from the point of view enterprises for more efficient approach is various theories the most strong sides combined is to use a complex model . For this capital structure about decision acceptance in doing the following into account to be taken required : tax system features (compromise) theory), the enterprise internal financial capacity (hierarchical theory), market conditions (market time theory), corporate management level (agency theory) and investors for to be sent signals (signal theory). Such integrated approach of the enterprise financial stability provide and market value to maximize help gives .

Uzbekistan under the circumstances capital structure theories in use to oneself typical aspects there is to these finance market relatively underdevelopment , debt of funds limited types and high price , many in enterprises own capital advantage etc. enters . Therefore modern theories local economic to the conditions customized in a way application to the goal appropriate is considered .

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