



The Importance of Knowing the Types of Capital and Shares in Establishing and Operating a Company

¹Layla Hasfajira Br Tambunan, ²Nadiatul Maghfirah, ³Hadi Rafli Maulana Srg, ⁴Nabila Hilmy Khairunnisa Hasibuan, ⁵Amanda Putri Fajrin

^{1,2,3,4,5}Universitas Islam Negeri Sumatera Utara

E-mail: ¹laylahasfajira@gmail.com, ²nadiamaghfirah10@gmail.com, ³raflisrg277@gmail.com,
⁴nhilmykhairunnisahasibuan@gmail.com, ⁵amandaputrifajrin@gmail.com

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Abstract

Understanding the structure and classification of capital and shares is crucial in the establishment and operation of a company, as these two elements form the basis of financial strength, clarity of ownership, and legal accountability. Capital and shares not only provide the financial resources needed for business growth but also serve as instruments of control and governance within a corporate framework. A lack of understanding of these aspects can lead to financial mismanagement, conflicts between shareholders, and limited access to external financing, particularly among small and medium-sized enterprises. This paper presents a structured analysis of capital, encompassing three main categories: authorized capital, issued capital, and paid-up capital. Furthermore, the paper discusses the types of shares, such as common stock and preferred stock, along with the rights and obligations attached to them. Drawing on theoretical concepts and legal regulations, particularly Law Number 40 of 2007 concerning Limited Liability Companies, this study aims to bridge academic understanding and practical application. This research emphasizes the importance of understanding capital and share structures for entrepreneurs, investors, and company managers to achieve financial stability, legal compliance, and long-term business sustainability.

I. INTRODUCTION

In the era of globalization and increasingly tight business competition, the success of a company is not only determined by the innovation of the products or services offered, but also by a solid legal and financial foundation. (Lestari, 2019) One fundamental aspect of building this foundation is a comprehensive understanding of a company's capital and ownership structure. Capital and shares serve not only as financial instruments but also as a reflection of ownership, responsibility, and decision-making rights within a business entity.

A good capital structure is an important indicator in assessing a company's credibility, both in the eyes of investors, business partners and financial institutions. (Sapna et al., 2025) In this context, capital is understood not only as funds invested in a company, but also as an instrument that supports operational sustainability, risk management, and equitable

profit sharing. Meanwhile, shares, as part of capital, reflect the ownership portion and the rights and obligations of shareholders, which must be clearly and structured from the company's inception.

In Indonesia, regulations regarding company capital are strictly regulated through Law Number 40 of 2007 concerning Limited Liability Companies. This law regulates in detail the types of capital, such as authorized capital, subscribed capital, and paid-up capital, as well as the rights of shareholders in carrying out their roles and responsibilities within the corporation. (Agustina, 2020) However, the implementation of this regulation still faces many obstacles, particularly among micro, small, and medium enterprises (MSMEs), which often start businesses without adequate legal and financial knowledge.

A common phenomenon shows that ignorance about capital and share types leads to various problems in company operations. These problems

range from unequal capital structures, misunderstandings over profit sharing, internal conflicts between business owners, and legal issues related to ownership status and administrative reporting to state authorities.(Putri, 2022)This situation not only harms the company internally but also has the potential to hamper macroeconomic growth, given that MSMEs are the backbone of the national economy.

Therefore, understanding the structure and types of capital and shares is not only a technical requirement for professionals, but also a strategic necessity in developing legal and financial literacy for students, aspiring entrepreneurs, and business owners who wish to establish and sustainably manage legal entities. In an academic context, this study is crucial for broadening theoretical knowledge while providing practical implications for the business world.

This journal aims to provide a comprehensive understanding of the concepts of capital and shares from a legal and financial perspective. The author attempts to explain the types of capital and shares and their functions in the process of establishing and operating a company, while emphasizing the importance of careful capital management in accordance with applicable legal provisions. It is hoped that this paper will serve as a useful academic and practical reference in creating sound, transparent, and accountable corporate governance.

II. RESEARCH METHODS

The method used in compiling this journal is library research with a descriptive-qualitative approach.(Muhadjir, 2000)This study aims to systematically describe and explain various types of capital and shares, including their roles in the establishment and operation of companies, based on relevant theoretical and legal references. Data sources were obtained from various literature, such as financial management books, business law, scientific journals, and applicable laws and regulations, particularly Law Number 40 of 2007 concerning Limited Liability Companies. This approach was chosen because the focus of the study lies in conceptual and normative analysis,

rather than on empirical data collection. Thus, the results of this study are expected to provide applicable theoretical contributions for business actors and academics.

III. RESULTS AND DISCUSSION

A. Understanding Capital and Shares in the Context of Company Establishment and Operations

In the modern business world, particularly in Limited Liability Companies (PT), understanding the concepts of capital and shares is fundamental. These two elements not only form the foundation of a company's financial structure but also determine the direction of ownership, the rights and obligations of the parties, and the long-term sustainability of the business. Lack of understanding of these aspects often leads to various legal and managerial problems, particularly in the Micro, Small, and Medium Enterprises (MSMEs) sector, which tends to ignore legal aspects when starting a business.(Fauzi, 2023).

1. Understanding Capital

In general, capital can be defined as all economic resources owned and used by a company to support its operational activities and business development.(Tarigan et al., 2021). This capital is not limited to cash, but also includes assets, goods, and other valuable economic rights. In financial literature, capital is often divided into two main sources:

- a. Internal Capital: Comes from the business owner himself, such as initial deposits for establishing the company or retained earnings.
- b. External Capital: Obtained from external parties, for example through bank loans, issuing bonds, or selling shares to investors.

Capital reflects the company's net worth and is the basis for determining financing strategies and business expansion capacity.(Anggoro et al., 2020). In a legal context, capital also serves as an indicator of the owner's responsibility for the company's debts and obligations. This is clearly regulated in Law Number 40 of 2007 concerning Limited Liability Companies (UUPT), which regulates the distribution and position of capital

as an integral part of the company's founding and management structure.

2. Understanding Shares

Meanwhile, shares are a financial instrument that demonstrates a person's or entity's ownership of a company. In a PT structure, shares represent the proportion of ownership and the rights attached to it. (Listiadi, 2015). Shareholders have a number of rights protected by law, including:

- a. The right to receive dividends from company profits
- b. Voting rights at the General Meeting of Shareholders (GMS)
- c. The right to access company financial information
- d. Rights to the remaining assets of the company in the event of liquidation

Stocks also serve as a strategic participation tool, as shareholders have influence over the direction of company policy. Stocks can be bought and sold and used as a means of raising funds without incurring debt, making them a popular choice for corporate financing.

3. Strategic Functions of Capital and Shares

Capital and shares are not only important from a funding perspective, but also serve as a measure of a company's credibility and transparency, especially in attracting investors and establishing relationships with financial institutions. (Linanda & Afriyeni, 2018) In the context of corporate governance, a healthy capital structure demonstrates management professionalism and a company's readiness to face risks and market competition. Issuing shares can be an effective strategy for obtaining long-term, interest-free financing. This can enhance a company's capacity to innovate, expand, and broaden its partnership network.

B. Types of Capital in Limited Liability Companies

According to Law Number 40 of 2007 concerning Limited Liability Companies, a company's capital structure is divided into three main types: Authorized Capital, Issued Capital, and Paid-Up Capital. These three types of capital have interrelated functions and roles in the

company's establishment and management cycle. (Agustina, 2020).

1. Authorized Capital

Authorized capital is the maximum nominal value of shares that can be issued by a company as stated in the Articles of Association (AD). (Maharani et al., 2020) This capital represents the maximum potential ownership of the company that shareholders can hold, both at the time of establishment and for future capital increases. Any changes to the authorized capital require approval at the GMS and approval from the Ministry of Law and Human Rights.

2. Issued Capital

Issued capital is a portion of authorized capital allocated to be held by the founders or specific investors. This means the company has offered a number of shares to shareholders, but not all of them have been fully paid. This capital signifies the company's commitment to establishing ownership, even though it has not yet been followed by actual payments into the company's coffers. (Permata & Ghoni, 2019).

3. Paid-Up Capital

Paid-in capital is the portion of issued capital that has been actually paid by shareholders into the company's account, either in cash or other agreed-upon assets. This capital forms part of the company's equity and can be used directly for operational costs, investments, or business development. Proof of paid-in capital payment must be officially documented and recorded in the financial statements. (Sobandi et al., 2024).

Clear recording of paid-in capital contributes to the transparency of a company's finances and serves as a benchmark for auditors, investors, and banks in assessing the company's health and potential.

C. Stocks in Legal, Financial, and Corporate Governance Perspectives

Shares are one of the most essential financial instruments in the modern business world, especially in legal company structures such as Limited Liability Companies (PT). (Muhammad, 2018) Shares not only serve as proof of ownership of a company but also represent a portion of the capital invested by their holders. Each share

represents a person's ownership of a portion of the company's assets and profits. Furthermore, shares are a key instrument in the fundraising process, both from the public through the capital market and directly from strategic investors. In this context, shares play a strategic role in strengthening the capital structure, supporting business expansion, and enhancing corporate legitimacy in the eyes of the public and other stakeholders.(Muhammad, 2018).

In practice, shares have a dual function: as a fundraising tool and as a means for capital owners to participate in corporate governance.(Sari, 2020)Companies that issue shares provide opportunities for the public to become part-owners of the business, which in turn contributes to accountability and transparency in business management. Shareholders are not only entitled to dividends, a portion of the company's distributed profits, but also to voting rights at the General Meeting of Shareholders (GMS).(Saputra et al., 2024)This shows that shares are not just financial instruments, but also instruments of power in a corporate context.

Legally, Law Number 40 of 2007 concerning Limited Liability Companies defines shares as a unit of value in a company's capital that grants certain rights to its owner. These rights include the right to profits, the right to assets in the event of liquidation, and the right to participate in company decision-making through the GMS.(Saputra et al., 2024)This law also provides room for companies to issue various types of shares with different characteristics and rights, including shares with limited voting rights or even no voting rights, as well as shares with cumulative dividends or other preferences.

In general, shares can be divided into two main types, namely common stock and preferred stock.(Larasati & Ramadhan, 2022)Common stock is the most commonly issued type of stock and grants its holders voting rights at the General Meeting of Shareholders (GMS) and the right to variable dividends, subject to board decisions and shareholder approval. Common stockholders have the last claim on assets in the event of a company liquidation, making them riskier than preferred stockholders. However, common stock

offers greater long-term profit potential, especially if the company's value and stock price increase in the market.

Unlike common stock, preferred stock provides preferential rights regarding dividend distribution and claims on company assets. Dividends on preferred stock are fixed and take precedence over dividends on common stock.(Sapna et al., 2025)However, preferred shareholders generally do not have voting rights, except in special situations such as when the company fails to pay dividends within a certain period, as stipulated in the company's Articles of Association and supported by existing regulations (Article 52 of Law No. 40 of 2007). Because of its characteristics that bridge the gap between shares and debt securities, preferred shares are often considered a form of equity that has bond-like properties.

Furthermore, shares are important not only from a legal and financial perspective, but also from a managerial perspective. Understanding the types of shares and their associated rights and obligations is crucial for companies in designing capital structures that align with their long-term strategies. Furthermore, for investors, understanding stock characteristics can help them make investment decisions that align with their risk profiles and financial goals.

Within the framework of good corporate governance, shareholders have a series of fundamental rights guaranteed by law.(Putri, 2022)These rights include the right to vote in important company decisions, such as the appointment or dismissal of directors and commissioners, approval of the annual report, and amendments to the articles of association. Furthermore, shareholders also have the right to obtain relevant and transparent information regarding the company's financial and operational conditions. If the company records a profit and decides to distribute dividends, shareholders are entitled to receive their share in proportion to their ownership. In the event of liquidation, they are entitled to the remaining company assets after all obligations to creditors have been met (Company Law, Articles 52 and 56).

Beyond legal and ownership perspectives, stocks also serve other strategic functions. From a company's perspective, stocks are a means of obtaining fresh capital without increasing debt, providing flexibility for expansion, product innovation, or restructuring. Stocks also allow for the sharing of business risks among multiple shareholders and can be used as an incentive for management and employees through stock ownership programs such as stock options. For investors, stocks serve as a source of passive income in the form of dividends and capital gains, as well as an investment vehicle that offers opportunities for portfolio diversification and participation in company ownership.

By thoroughly understanding the characteristics, types, rights, and functions of shares, both companies and investors can create more effective, efficient, and sustainable ownership structures and financial policies. Shares are not simply a symbol of ownership, but also a crucial foundation for building a resilient, transparent company capable of surviving in a competitive market environment.

D. The Urgency of Understanding Capital and Shares

In the process of establishing, managing, and developing a company, a comprehensive understanding of the concepts of capital and shares plays a crucial role. This not only relates to technical administrative aspects such as accounting records and financial reporting, but also directly influences the effectiveness of corporate governance, the level of compliance with legal regulations, the company's attractiveness to potential investors, and the internal stability of the business's organizational structure.(Putri, 2022). Capital and shares are two fundamental elements in the modern capitalist economic system because they form the basis of ownership structures, decision-making, and the distribution of legal responsibilities among stakeholders in a company.

A lack of understanding of capital types, such as authorized capital, issued capital, and paid-in capital, as well as the types of shares and their rights, can have serious consequences.

Imbalances in the distribution of power and economic rights, such as dividends or voting rights, can trigger conflicts among shareholders or between shareholders and management.(Maharani et al., 2020)In many cases, this even leads to legal disputes that not only disrupt operations but also tarnish the company's reputation and threaten business continuity. Therefore, Law Number 40 of 2007 concerning Limited Liability Companies explicitly regulates capital and share structures and requires a thorough understanding from all parties involved, from founders and investors to directors and commissioners. Articles 33 to 37 of the law emphasize the importance of transparency and accountability as key principles in building a legal and sustainable company.

A healthy capital structure is a key aspect in maintaining a company's financial balance. The balance between equity and debt capital must be strategically designed to ensure the company remains liquid and solvent in the long term.(Maharani et al., 2020)Equity provides the foundation for financial stability and independence, while debt financing, if managed carefully, can accelerate business growth. In determining the ideal capital structure, companies must consider the weighted average cost of capital (WACC), the level of business risk, and financing flexibility. Too little capital will hinder business expansion, while too much capital, without optimal utilization, will create unnecessary financial burdens.(Maharani et al., 2020).

On the other hand, a thorough understanding of share ownership structures is crucial for attracting investors. Investors will be willing to invest only if the share distribution structure and rights are structured transparently and consistently. A lack of clarity in this structure can increase perceived risk and become a barrier to external capital inflow. Therefore, the preparation of an informative prospectus, a fair shareholder agreement, and a clear and consistent dividend policy are essential for creating a healthy investment climate.(Himawan, 2022).

Improper stock management can also potentially lead to internal corporate conflict.

Disputes regarding ownership proportions, dividend distribution, and voting rights at General Meetings of Shareholders (GMS) are often caused by a lack of understanding of share structure and inaccurate record keeping. (Saputra et al., 2024) Professional stock management, including recording paid-in capital and establishing rights in the articles of association, is key to creating fairness and avoiding disputes. Preferred stock, for example, can provide stability in dividend distribution but limits control; while common stock carries voting rights but does not guarantee a fixed dividend. Understanding these differences helps shareholders and management manage expectations and maintain corporate harmony.

Furthermore, capital and shares are also key tools for financing corporate expansion. Companies seeking business development, such as opening branches, acquiring companies, or launching new products, can employ strategies such as issuing new shares, rights issues, or initial public offerings (IPOs). (Listiadi, 2015) However, such strategic steps must be based on a thorough review of the company's value, revenue projections, and their impact on ownership structure and managerial control. Carelessness in this regard could result in ownership dilution or compromise the stability of internal controls.

Besides strategic aspects, compliance with legal provisions regarding capital and shares must also be considered. All changes to capital structure and share issuance must comply with the provisions of the Limited Liability Company Law and national tax regulations. For example, Article 33 paragraph 1 of Law No. 40 of 2007 stipulates that a minimum of 25% of authorized capital must be paid up and proven by valid documents. Violation of this provision may result in the cancellation of the company's establishment or the imposition of administrative and fiscal sanctions. Furthermore, accurate recording of dividends and share ownership reports is crucial to avoid problems with income tax reporting.

From a legal perspective, an orderly and legally documented capital structure and share ownership are essential for the legitimacy of a company's operations. Every strategic decision

concerning the issuance of shares, distribution of dividends, or changes to the ownership structure must be based on valid legal documents and recorded in the deed of establishment or articles of association. (Sapna et al., 2025) Otherwise, the company could face consequences in the form of sanctions from the Ministry of Law and Human Rights or lawsuits from internal or external parties.

Meanwhile, from a business perspective, a strong capital structure demonstrates the professionalism and credibility of company management. This will boost trust from investors, creditors, and strategic partners. Companies with an optimal capital structure have broader access to capital markets, easier access to fundraising through IPOs or private placements, and greater flexibility in exploring other strategic opportunities. Clarity in ownership structure also strengthens the company's position in negotiations and streamlines collective decision-making at the shareholder level.

Additionally, a well-designed stock management strategy can be used to shape a company's control structure. For example, preferred stock can be offered to institutional investors to raise funds without disrupting managerial control, while common stock can be used as an incentive for management through programs such as an Employee Stock Ownership Plan (ESOP), which aims to increase the loyalty and productivity of core employees. (Linanda & Afriyeni, 2018).

Thus, the synergy between a strong understanding of legal aspects, the ability to develop financial strategies, and wise stock management will create a company that is not only formally legal but also robust, competitive, and business-sustainable. Capital and shares are not merely administrative elements in establishing a company, but also vital instruments in building sound governance and long-term business sustainability.

IV. CONCLUSION AND SUGGESTIONS

A. Conclusion

Capital and shares are vital components in establishing and managing a company. A proper

understanding of the types of capital (authorized, issued, and paid-up capital) and shares, along with their rights and functions, is crucial for founders, shareholders, investors, academics, and legal practitioners. This knowledge not only strengthens a company's financial and ownership structure but also prevents legal conflicts and attracts investors professionally. Therefore, careful implementation of capital and share management principles is key to a company's success and sustainability amidst economic dynamics.

B. Suggestion

Based on the discussion outlined above, it is recommended that every business actor, whether starting a business or already managing a company, continuously improve their understanding of capital and stock aspects. This is crucial for building a strong financial foundation and a transparent ownership system. Furthermore, adequate legal awareness is necessary to avoid potential violations and maintain the company's integrity in the eyes of regulators and business partners. Educational institutions and training institutions are also expected to play an active role in providing education on the importance of practical and applicable capital and stock management. With proper management, companies will not only be able to survive amidst market competition but also contribute significantly to national economic growth.

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