# Joint Stock Company

# Introduction

"A Joint Stock Company is an artificial person, created by law with a fixed capital, divisible into transferable shares, with perpetual succession and a common seal."

The Industrial Revolution created the modern factory system involving production on a very large scale. Mass production required huge capital investment and expert professional management; it also involved heavy risks. Sole proprietorship and partnership forms of organisation could not meet these requirements due to shortage of funds, owner-oriented management and unlimited liability. Joint stock company was evolved to meet the requirements of the factory system. Thus the company form of organisation came into existence due to the limitation of proprietorship and partnership forms of business organisation.

# Meaning of Joint Stock Company

A joint stock company is an artificial person invisible, intangible and existing only in contemplation of law, being the mere creature of law, it possesses only those requisites which the charter of its creation confers upon it, either expressly or as incidental to its very existence.

# Definitions of Joint Stock Company

Lord Lindley, “By a company is meant an association of many persons who contribute money’s worth to a common’s stock and employ it for a common purpose.”

Justice James, “Company means an association of persons united for a common object.”

Chief Justice Marshall, “By a company is meant an association of many persons who contributes money’s worth to a common stock and employ it for a common purpose.”

Indian Companies Act, 2013, “A company means a company incorporated under this act or under previous any company Law.”

# Characteristics of Joint Stock Company

1. Artificial person: Company does not have a physical body of a natural human being. It is an artificial person created by law. Its operations are performed by the elected representatives or members known as directors. Although business is run in the name of the company.
2. Perpetual succession: A company has a stable character. Its life is not dependent on the life of its members. On the death of the members or on sale of their shareholding, new persons become its members. Any change or any instability among members does not bring the life of a company to an end. The company goes on continuously. There is a saying: “Members may come and members may go, but company goes on forever.”

3. Separate legal entity: The second important feature or characteristics of a company is that it has a separate legal entity. Any shareholder of the company can enter into a contract with the company. A company can have property, can carry on its activities, can get the account opened and carry on all the other activities which a person do it. It is clear that the company is different entity from its members.

4. Formation: The formation of a company is a time consuming, expensive and complicated process. It involves the preparation of several legal requirements before it can start functioning. Registration of a company is compulsory or provided under the Indian Companies Act, 2013.

5. Control: The company form of business is owned by the shareholders. These shareholders elect their representative who are called directors of the company. The directors manage and control the activities of the company by appointing professional experts.

6. Liability: The liability of members of the company is limited to the extent of their share capital contribution in the company.
7. Common seal: Being an artificial person the company cannot sign, therefore there is need for common seal with its name engraved on it. The activities of the company are carried through a group of people. Any one acting on behalf of the company can use common seal in place of signature of the company to bind the company. Any document which does not bear the common seal of the company is not binding on the company.
8. Risk bearing: The risk of losses in a company is borne by all shareholders. This is unlike the case of sole proprietorship or partnership firm where one or few persons respectively bear the losses in the face of financial difficulties, all shareholders in a company have to contribute to the debts to the extent of their shares in the company's capital. The risk of loss thus gets spread over a large number of shareholders.

- 9. Number of members: For a limited company, the number of members should not fall below ‘two’ in the case of a private company and ‘seven’ in the case of a public company.
- 10. Transferability of shares: The shares of a company are freely transferable. For this transfer the transferring shareholders do not have to take the consent of the other shareholders.
- 11. Divorce between ownership and management: The company is separate from those who compose it (shareholders). A shareholders cannot bind the company for its act. the task of its management is entrusted to a board of directors, who are separate from the body of shareholders.

- 12. Statutory regulations and control: To maintain uniformity of principles and to avoid clash of interest in the affairs of the company, the Government has provided for statutory control over its affairs.

- 13. Democratization in economic life of the community: Company form of organisation is nothing but in fact, an introduction of the principles of democracy in the economic life of the community.

- 14. Right to sue: Joint Stock Company can take any legal action in its own name. it can sue other person, similarly, others can also sue a company.

Stage 1: Promotion

Stage 2: Incorporation

Stage 3: Raising of Capital

Stage 4: Commencement of Business


REMOVED
ADDED
SHAREHOLDERS

# Advantages of Joint Stock Company

1. Limited liability: The liability of members of the company is limited to the extent of their share capital contribution in the economy. The limited liability attracts many people to invest their money in company form of business. As in case of loss the creditors can not have claim over the personal property of the members.

2. Transfer of interest: The case of transfer of ownership adds to the advantage of investing in a company as the share of a public limited company can be sold in the market and as such can be easily converted into cash in case the need arises. This avoids blockage of investment and presents the company as a favourable avenue for investment purpose.

3. Perpetual existence: Existence of a company is not affected by the death, retirement, resignation, insolvency or insanity of its members as it has a separate entity from its members. A company will continue to exist even if all the members die. It can be liquidated only as per the provisions of the Companies Act.

4. Growth and expansion: In company form of business there is more scope for growth and expansion. Company has large financial resources and their rate of profit is also high. They can easily use large amount of accrued or retained profit for expansion and growth.

5. Democratic management: Company form of business is managed by the directors, who are elected by the shareholders. All the decisions are taken by calling board meetings where all the directors get voting rights. In this way the company can own in the best interest of majority of shareholders.

6. Immense capital resources: Generally there is no limit to the number of shareholders in a public company. It facilitates mobilisation of large amount of capital for investment. The capital so collected enables the company to undertake business on large scale. Thus, it lands itself readily to enterprise involving large capital outlay.
7. Transferability of shares: The shareholders of a public company are free to transfer their shares to other persons. As shares are transferable, 'a shareholder can easily convert his holding into cash. This encourages investment of funds.
8. Centralized management: The management of the company is delegated to Directors. Decisions are taken by a majority vote. The management of the company is always flexible.

9. Taxation privileges: A company pays lesser amount of taxes as compared to other and of organisation.

10. Diffusion of risk: The risk of loss is spread over a large number of investors. The business can take up more risky ventures which many not be possible in other forms of organisation.

11. Definite standing: A company gives a definite standing. An outsider will not hesitate in dealing with the company because he knows its scope and legal limits of it powers.

12. Development of management of profession: Since a company cannot be managed and run by all its shareholders, it helps to employ professional managerial personnel. Thus, we can say that company has helped the development and management as profession.

13. Public confidence: Since the affairs of a company are made public, this generates confidence in the minds of owners, creditors and consumers.
14. New inventions: Today technology has become more sophisticated. In big companies, scientists are working in the research laboratories discover new products. Thus, company is contributing to the enrichment of human knowledge.
15. Avenues for investment by financial institutions: Many financial institutions need channels of investment for their surplus funds. Shares and debentures of good companies are good investment. Hence, it may be said that company has indirectly helped the growth of different financial institutions.

16. Social desirability: It has brought about the democratization of ownership of a big business. Since the capital of a company is divided into large number of shares of small value, a poor person can become a part of owner. This also satisfies the psychological urge of a man to be associated with big objects.

17. Ability it cope with changing business environment: Business enterprises operate under uncertain economic and technological environments, the need of consumers are varied and changing. To cope with changing business environments every business is required to invest money as research and development. Only joint stock company can afford to invest money on such projects. It enables to cope with changing business environments.


Company

# Disadvantage of Joint Stock Company

1. Complexity in formation: The formation of a company requires greater time, effort and extensive knowledge of legal requirements and the procedures involved. As compared to sole proprietorship and partnership form of organisations, formation of a company is more complex.
2. Lack of secrecy: The affairs of a company becomes public since several statements and return have to be filed with the register of companies. It is not possible for a company to retain the business secrets since it is managed and controlled by many people.
3. Impersonal work environment: Separation of ownership and management leads to situation in which there is lack of effort as well as personal involvement on the part of the officers of a company.

4. Numerous regulations: The functioning of a company is subject to many legal provisions and compulsions. A company is burdened with numerous restrictions is respect of aspects including audit, voting, filing of reports and preparation of documents and is required to obtain various certificates from different agencies. viz,., registrar, SEBI, etc.

5. Delay in decisions: In company organisation all the important decisions are taken in the board meeting or after consulting various persons. And once decisions are taken these have to communicated to every one which is again a lengthy process as large numbers of people are working in company at different levels, so talking and implementing decisions is a lengthy process in a company.

6. Oligarchic management: In theory, a company is a democratic institution where in the Board of Directors are representative of the shareholders who are the owners. In practice, however, in most large sized organisations having a multitude of shareholders; the owners have minimal influence in terms of controlling or owing the business. It is so because the shareholders are spread all over the country and a very small percentage attend the general meeting.
7. Conflict of interests: There are possibilities of conflicts between the various interested groups. For example, equity shareholders, preference shareholders, debenture holders, directors and financial institution etc.

8. Excessive speculation: It encourages reckless speculation on the stock exchange. Since shares of a company are freely transferable, people are encouraged to speculate in the price of these shares.

9. High taxes an fees: A company pays a huge amount of taxes and fees. The income of company are taxed separately and dividend of the shareholders are also taxed.

10. Oppression of minority interest: 'Majority is authority' principle is applicable in the case of a company organisation. The interest of the minority group are never represented in the management.

11. Read tapism and bureaucracy: The actual administration of company is in the hand of salaried officers who have no proprietary interests in the company. Therefore, they shirk responsibility.

12. Too many legal formalities: The internal working of the company is subjected to statutory restrictions. Due to complicated legal regulations, the running of a company would prove to be troublesome.
13. Business combination: A company gives scope for formation of combinations which result in monopoly. They charges higher amount for their products.
14. Political corruption: Companies play a major role in the political life of every country. They are sources of corruption. They change governments.
15. Evils of factory system: This form of business leads to large scale production. The evils of factory system- congestion, air pollution, insanitation etc are attributed to companies.

# Examples of companies

# Kinds of Companies

On the basis of liability of members

On the basis of number of members

On the basis of incorporation

On the basis of liability of members

Limited companies

Unlimited companies

Companies limited by shares

Companies limited by guarantee

# On the basis of incorporation

| Chartered companies | By special act of parliament | Under companies Act |
| --- | --- | --- |

| On the basis of numbers of members | | |
|---|---|---|
| Public Company | Private Company | One Person Company |